FUNDING TO ACHIEVE THE DELIVERY OF 500,000 HOUSING UNITS BY 2016

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Table of Content

Estimated cost of housing deficit

Housing Deficit	Estimated Cost (N:k)	Cost of closing The Deficit
15,000,000	3,500,000.00	N52.5t
16,000,000	3,500,000.00	N56t
17,000,000	3,500,000.00	N59t
500,000	7,000,000	N3.5t

500,000 housing units by 2016

Source: Pison Housing Company, 2009

From 1972, when the 2nd National Housing Policy (NHP) was launched till 2012, less than 200,000 housing units have been delivered across the country through the NHP initiate.

Year	Planned	Achieved	% achieved
1962 to1968	24,000	500	2%
1970 to 1972	54,000	-	0%
1975 to 1980	202,000	28,500	14%
1981 to 1985	200,000	47,200	23.6
1994 to1995	121,000	1,104	0.8
LSDPC		25,000	

500,000 housing units by 2016

Is it Possible? Yes!

South Africa Housing Strategy is the Reconstruction and Development Plan (RDP) programme. 2.3 million houses of various descriptions were delivered over the last 13 years at the cost of R29.5 billion. The Government plans to build 220,000 housing units in each financial year between 2011 and 2014

How do we fund 500,000 new housing units in 4 years?

- First we reduce the overall cost of building a house.
- Then we agree a methodology, a process, a cycle to access funds into housing and to ensure fresh funds a constantly channelled towards housing.

  Its a collaborative effort, the Federal and State Governments supporting the private sector to provide affordable housing for Nigerians.

Total Cost of a House

We identify Four main cost heads in mass delivery of housing, which are the Finance, cost of acquiring and preparing land, cost of regulation and Taxes and cost of building fittings and cement .

Building and Cement

- ✓ Cement
- ✓ Plumbing and Electricals

Land

- ✓ Cost of purchasing land
- ✓ Cost of clearing
- ✓ Cost of provision of land services, roads, sewage drainage, perimeter fencing.
- ✓ Surveys etc

Regulation and Taxes

- ✓ Cost of transfer of title
- ✓ Cost of taxes and approvals
- ✓ land Use Act

Finance Cost

Reducing the Cost of Land

Amend the Land Use Act, reduces the delays in securing consent, allow transfers to be validated by simple contract of sale and then registered in central

- Let the government focus on acquiring land, clearing land, site and services and offering to PMI to build estates on a lease to buy back arrangement.
- PMI can buy large blocks of land, clear and sell plots incrementally to home buyers
- "low-income earners in Mowe Ofada Ogun State have invested over $100 million (30,000 plots at US$3,300 each) on acquisition of land in that area. The individuals proceed to build their homes incrementally over a period of 8 to 10 years" Source: EFInA 2010

Reducing the Cost of Building and Cement

"the high cost of conventional building materials, especially cement, is one single most important factor responsible for soaring housing costs in Nigeria" Federal Minister of Lands, Housing & Urban Development

- ***"Where a person incurs capital expenditure on the construction of a commercial building and the person has provided roads, power, sewers, there shall be deducted in computing the profits of that person for any year of income a deduction equal to 25 per cent," states a proposal in the Finance Bill 2012 signed by Mr* Njeru *Githae.* Finance Minister of Kenya.**
- Developers of the ($3 billion) Tatu City project of commercial and residential estate in Kenya are targeting tax refunds of up to Sh20 billion that they intend to spend on building roads, sewerage systems, power lines and supplying water to tenants.

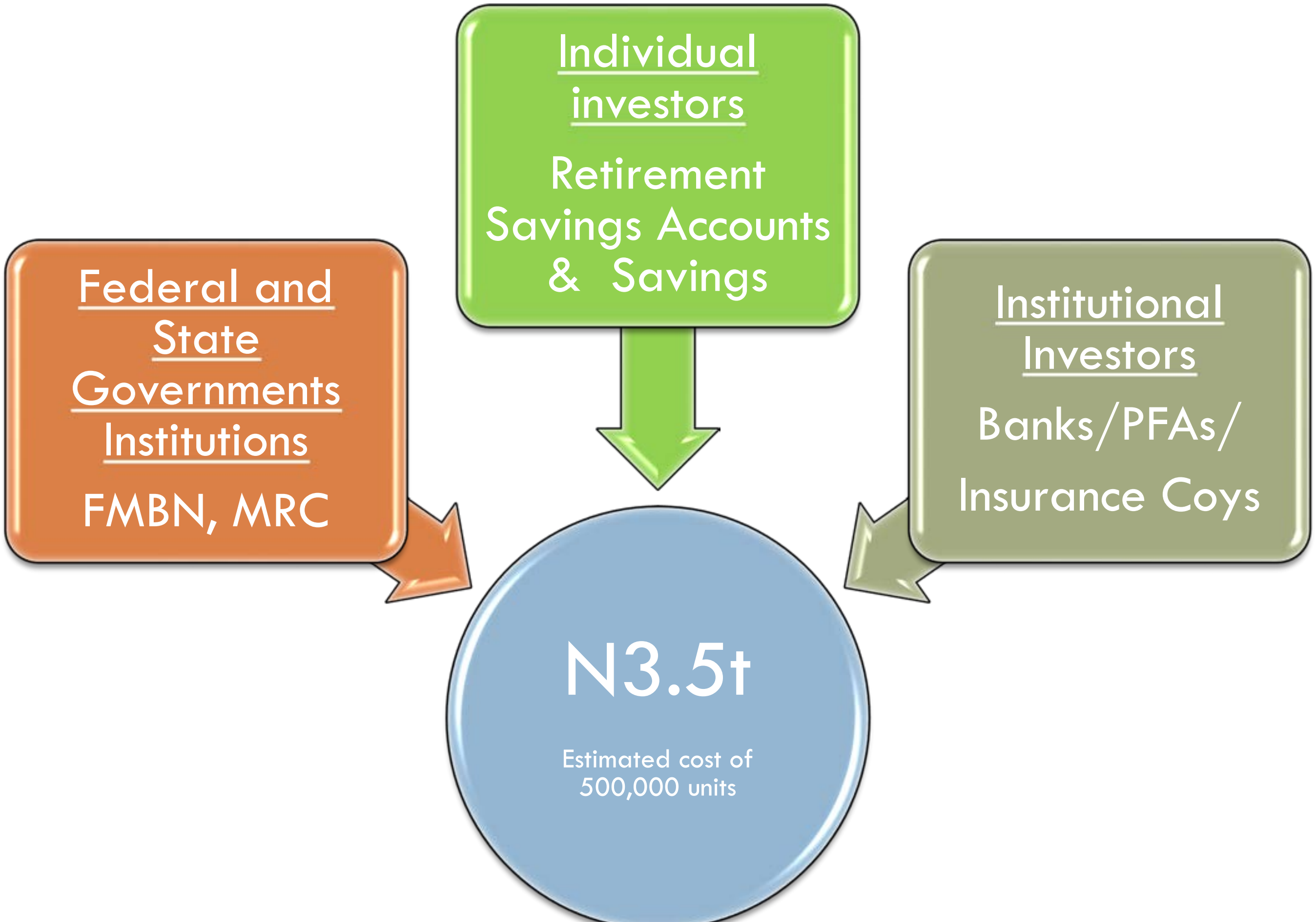
- Cement subsidies based on voucher system, payable on milestone achievement of building plans by PMI.
- Allow cooperative and companies buy bulk cement for staff housing and claim tax rebates and deductions.

Reducing the cost of regulation and taxes.

Make land and property purchases Tax free, especially for estates schemes. Make Mortgage Interest paid a tax deductable expense.

- *“ in South Africa, the government introduced a zero tax (transfer duty) policy on housing that cost less than R500,000 ($67,850) and 5% for units costing R500,000 and R1million. This contrasts with the minimum tax at 20% in Nigeria (Lagos State)”.*
- Allow property titles, Deed of Assignment issues by PMI to be transferable without governors consent, capital gains or VAT, however limited to same buyer for one property.

Where are the Funds?



Where are the funds? Institutional Investors

- By June 2011, the total consolidated assets of PMIs had increased by to N360 billion.
- Mortgage to loanable funds for the five years ending 2009 By June 2011, the total consolidated assets of PMIs had increased by 0.3 percent to N360 biaveraged a dismal 14.51%, while the total mortgage market is put at a mere N127.5 billion (US$850 million).
- "*The contribution of mortgage finance to Nigeria's Gross Domestic Product (GDP) is close to negligible with real estate contributing less than 5%, and mortgage loans and advances at 0.5% of GDP. The average share of GDP invested in housing declined from 3.6% in the 1970s to less than 1.7% in the 1990s*"

  Simon Walley, World Bank, Making Finance work for Nigeria (Housing section), 2009.

Where are the funds? FMBN/States

- The FMBN boss said the equity base of the bank was “too low” to address the housing challenges facing the organisation. Currently, the bank’s equity base is N5bn and only 50% has been paid. Estate Development Loans approved by FMBN under the NHF scheme has hit N38bn while loans approved for Primary Mortgage Institutions (PMIs) rose to N19bn by the end of January 2010.
- As at 2010, the National Housing Fund had N70b in funds from contributors. Federal Mortgage Bank of Nigeria (FMBN) gave loans to 8,874 out of over 1,000,000 applications between 1977 and 1990.
- Mortgage Refinance Company to be debt financed by a $250m bond.

The 2007 N100b FGN bond

- The FGN guaranteed the ₦100billion Bond of FMBN in two tranches of ₦50billion each;
- The Bond was gazetted, thereby qualifying for Trustees Investment;
- The Bond was treated for investment purposes as a Government security;
- Investment in the Bond by insurance companies was regarded as a permissible investment;
- Interest income on the Bond shall be treated as non-taxable by the Federal Inland Revenue Service;
- No capital gains tax on disposal before or at maturity;
- registration and Issuing House Fees by Securities and Exchange Commission be reduced to nominal fee not exceeding ₦10million;
- FMBN be registered as an Issuing House by the Securities and Exchange Commission, subject to the Minister of Finance approving each issue, based on Presidential or Federal Executive Council Authorization. In this initial instance, FMBN should act as a joint issuing house with another reputable approved institution;
- The Bond shall qualify as an approved investment by Pension Fund Administrators (PFAs);
- The single obligor limit for banks shall not apply to their investment in the Bond;
- Bank's investment in the Bond shall also be exempted from the 1% general loan loss provision;
- investment in the Bond by banks shall qualify for investment by SME funds subject to a cap to be advised by the Governor of the Central Bank of Nigeria; and
- investment by banks in the Bond, being a marketable security, shall also count as part of their liquid assets, subject to a maximum of three (3) year tenor.

Commercial Banking Sector; loan book* *9m 2012 figures Source: Renaissance Capital

In 2012, the World Bank launched the Global Financial Inclusion (Global Findex) Database, exploring levels of financial inclusion around the world. According to Findex, while 30% of Nigerians over the age of 15 have an account at a formal financial institution, only 2% of Nigerians over the age of 15 have a loan from a financial institution, and almost none have an outstanding loan to purchase a home:

Bank	Market Cap $	% to Real Estate	% to Oil and Gas
First Bank Plc	4,171	-	35
Zenith Bank Plc	4,180	6	15
GT Bank plc	4,690	8	22
UBA Plc	1,660	3	17
Access Bank Plc	1,706	5	24
Diamond Bank Plc	674	9	27
Skye Bank plc	518	7	25
FCMB plc	589	8	25
Fidelity Bank plc	594	10	8
Stanbic IBTC	444	10	14

Capital Market offered securities

Institution	Type of Security	Amount	Year of issue
FMBN	MBS	N100b	2007
Skye Shelter Fund	REIT	N2b	2007
Union Homes Hybrid REIT	REIT	N50b	2008
UPDC	REIT	N30b	2013

Our findings

- The FGN and States Government provision of low interest, mortgage funds to home owners has been “limited”.
- Banks and Insurance Companies have not “embraced” the NHF. Technically, we have no mortgages offered by Commercial Banks that match the Nigerian yield curve i.e. 20 years.
- the Mortgage Bankers Association of Nigeria estimates that the unmet mortgage finance requirement in the country could be conservatively put at between N20-N30 trillion

Our Findings cont.

Renters in Nigeria will struggle to fund mortgages

- In 2010, it was reported that 85% of the urban population in Nigeria lives in rented accommodation, spending more than 40% of their income on rent. Of these houses, 90% are self-built and this is mainly due to lack of mortgage financing, and less than 5% have formal title registration.

  N. Kokularupan, Housing Finance Consultant, IFC Malaysia at the International Housing Finance Workshop 2010 in Lagos, Nigeria

- Rent in major cities in Nigeria is about 60% of an average workers disposable income
- Onibokun (1985) and Ebie (2003)

What is proposed

Present System:

Salary Earner

Rent

Landlord

Proposed System:

Salary Earner

Rent to Own

Home “owned” by contributor, funded by periodic savings channelled to PMIs.

Comparing the National Housing Fund to the Retirement Saving Account

NHF

Funded by 2.5% of basic salary of employees earning N3,000 and above

Banks to invest 10% of their loan portfolio. Insurance Companies to invest 20% of non-life and 40% life funds in the housing sector with 50% of these directly in the funds. Financial contributions of the Federal Government.

AuM: N70b (2010)

RSA

Funded by15% of Basic, Housing and Transport Allowance.

AuM: N1.45t

(2011)

Investments in Real Estate by Pension Funds

Dec 2011

PFA

Total Contributions:

N1.29t

Invested in Real Estate Equities and Corporate Debt: N4.62b (0.35%)

CPFA

Total Contributions: N454.64b

Invested in Real Estate: N117.73b (26%)

AES

Total Contribution: N519.57B

Invested in Real Estate:

N68.32b (13%)

How? Use the RSA to fund mortgages

- There is already an existing compulsory, tax free saving scheme called the Retirement Saving Accounts (RSA).
- The proposed informal sector guidelines, subject to amending the PRA 2004, will allow contributions to be used as collateral towards a mortgage.
- PenCom is working to create multiple funds under the RSA. These new funds should allow up to 70% investment in REITs.
- The RSAs accept Additional Voluntary Contributions (AVC). The FGN and States can match the mortgage saving made by contributors thus subsidizing the cost of homes for Nigerians who cant afford a traditional mortgage.
- The RSAs funds, especially the AVC portion can be directed to the PMI but specific to their ring fenced housing projects, with incentives of land, cement and fiscal incentives.

Income Distribution in Nigeria

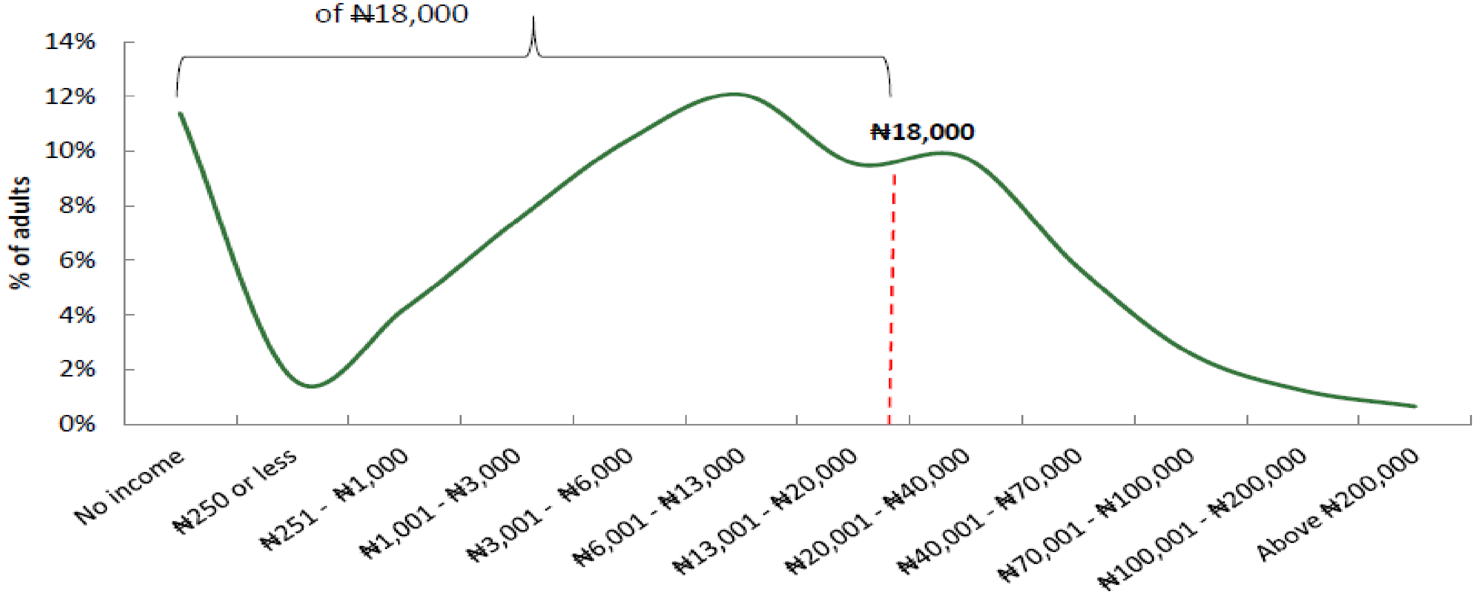
Source: EFInA Access to Finances in Nigeria 2012 survey

EFInA
Enhancing Financial Innovation & Access

Income Distribution

- ❑ Income levels still remain low
- ❑ Only 4.5% of adults earn more than ₦70,000 ($448) per month

- ❑ More than half the population earns less than the monthly minimum wage of ₦18,000



Source: EFInA Access to Financial Services in Nigeria 2012 survey

Breaking Down the Numbers

	Adult Working Population	N:k per year
Total Nig. Adult Population is 87.9m	87,900,000	
4.5% of Adults earn above N70,000.00 monthly	3,955,000	
4.5% of Adults earn above N70,000.00 monthly contributing 10% of annual salary to dedicated RSA	3,955,000	N332.26b

Flow chart for proposed mortgage funding

Retirement Savings Accounts (individual ownership)

Tax free Contributions	AVC/Company/FGN/State matching

REIT (Promoted by PMI, Estate Developer, Institutional Investor)

Subsidized land & Cement Exempt from Land Use requirements on title transfer	Nil Taxes and Levies Capital allowances and refunds on infrastructure spend

Housing Estates (managed by Property Managers)

Securitized and Offloaded to PFAs, PE Insurance Coy, Banks as MBS	Securitized and Offloaded to MRC & FMBN as MBS

Summary: if you earn a salary, you should be able to get a House!

Aso Savings issues a REIT to build a housing Estate

Kalu opens a RSA Mortgage Fund and buys into a REIT promoted by Aso Savings specific to the off plan Estate. If Kalu earn less than the minimum mortgage amount Kalu get a subsidy payment.

Aso Savings allocates the House off plan to Kalu, his monthly “rent” is paid by his employer to his RSA which funds the ASO REIT. That receivable is packaged securitized and rated, Aso Savings sells the MBS to PFAs/MRC/FMBN

PFAs/MRC/FMBN holds the Aso MBS to maturity. Thus Kalu’s rent is enough collateral to “own” a home, no equity required.

Aso Balance sheet is free to issue another REIT and/or Package another MBS

Key Issues to address

Can we legislate;

- Retirement Savings Accounts with dedicated mortgage portion. The PFAs have raised N1.45t in total RSA assets as at December 2011.
- Removal of all taxes, fees and levies by Federal and State and Local Governments for real estate development.
- Empowering of the Commercial Bank and Insurance Coys by giving PMI REITS the same guarantees the N100b FGN bond got.
- Empowering the FMBN by increasing their capital base via implicit FGN guarantees if necessary, to enable them support mortgage originators by the purchasing of their securitized MBS.
- Capital Allowances for capital spend by real estate developers
- Subsidized Cement for estate development especially for estate development.
- Update our foreclosure laws

Can we?

Thank You