

# **HOUSING AS AN ENGINE FOR INCLUSIVE GROWTH – THE KEY ROLE OF PUBLIC PRIVATE PARTNERSHIPS IN DRIVING AFFORDABLE HOUSING IN NIGERIA**

By the Infrastructure Concession Regulatory Commission

Presented By Engr. Chidi K C Izuwah Snr  
Ag. DG/CEO on behalf of all  
@ ICRC

# Home Ownership & Stable Societies



Home ownership with well established property rights forms the foundation of a healthy financial system. Despite the sophistication and scale of the US capital market, mortgages remain its cornerstone. The existence of this large, stable pool of finance with a diversified risk basis (and much of it insured) – has been critical in the development of US capital markets. Moreover the creation of a “homeowner” class is one of the surest methods to help a society achieve long term political stability –

*OPIC Study on Egyptian Housing Way Forward prior to the Arab Spring*

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# Defining Affordable Housing



Affordable housing is defined by three parameters, which cities need to tailor to their local contexts

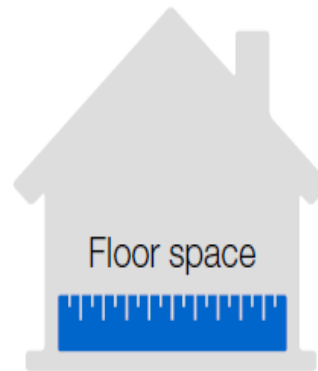
Affordability threshold



30–40%  
of income  
on housing

60–70%  
of income on food, health care,  
and other expenses

Standard unit



Amenities



Commute time  
<1 hour

Income threshold



80% area  
median income

# NIGERIA's URBAN/BUILT ENVIRONMENT CHALLENGE



1. High Population Growth (3.2%) & Urbanization (50% plus)
2. Low disposable incomes
3. Inadequate housing stock production (estimates @ 100,000 pa; accumulated deficit of 17 -23 million all inadequate for about 170m pop.)
4. Dearth of long term financing for housing, mortgage & infrastructural financing (84 PMBs with entire market size of US \$1.42 Billion @ 0.5 % of GDP. Commercial DMB mortgages 1% of total assets)
5. High cost components (land, finance, building materials, infrastructure, transaction costs)
6. Mortgage Finance to GDP Ratio – 0.5%
7. Low Contribution to GDP – 8%
8. Low Home Ownership Rate

# We are not alone.....



- Brazil's 7 – 8 million housing deficit
- India 18 Million housing deficit
- China 17% of urban population ?????
- Indonesia?????

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# Potential and Opportunities



- ❑ Every new home built creates 5 new direct jobs and 2 indirect jobs (WB)
- ❑ 2012 Mckinsey study indicates that the economic benefit of filling the housing deficit in 16 largest emerging economies is USD 600 Billion
- ❑ 2 million affordable homes will create 3 Million Construction jobs, 24 Million jobs in linked industries and services and result in a 2% rise in GDP (In Nigeria USD 11 Billion)
- ❑ USD 17 Billion rise in demand for credit; 16 Million tonnes demand for cement and 6 Million tonnes demand for steel
- ❑ Demand for painting, plumbing, electrical appliances and other household goods will also rise

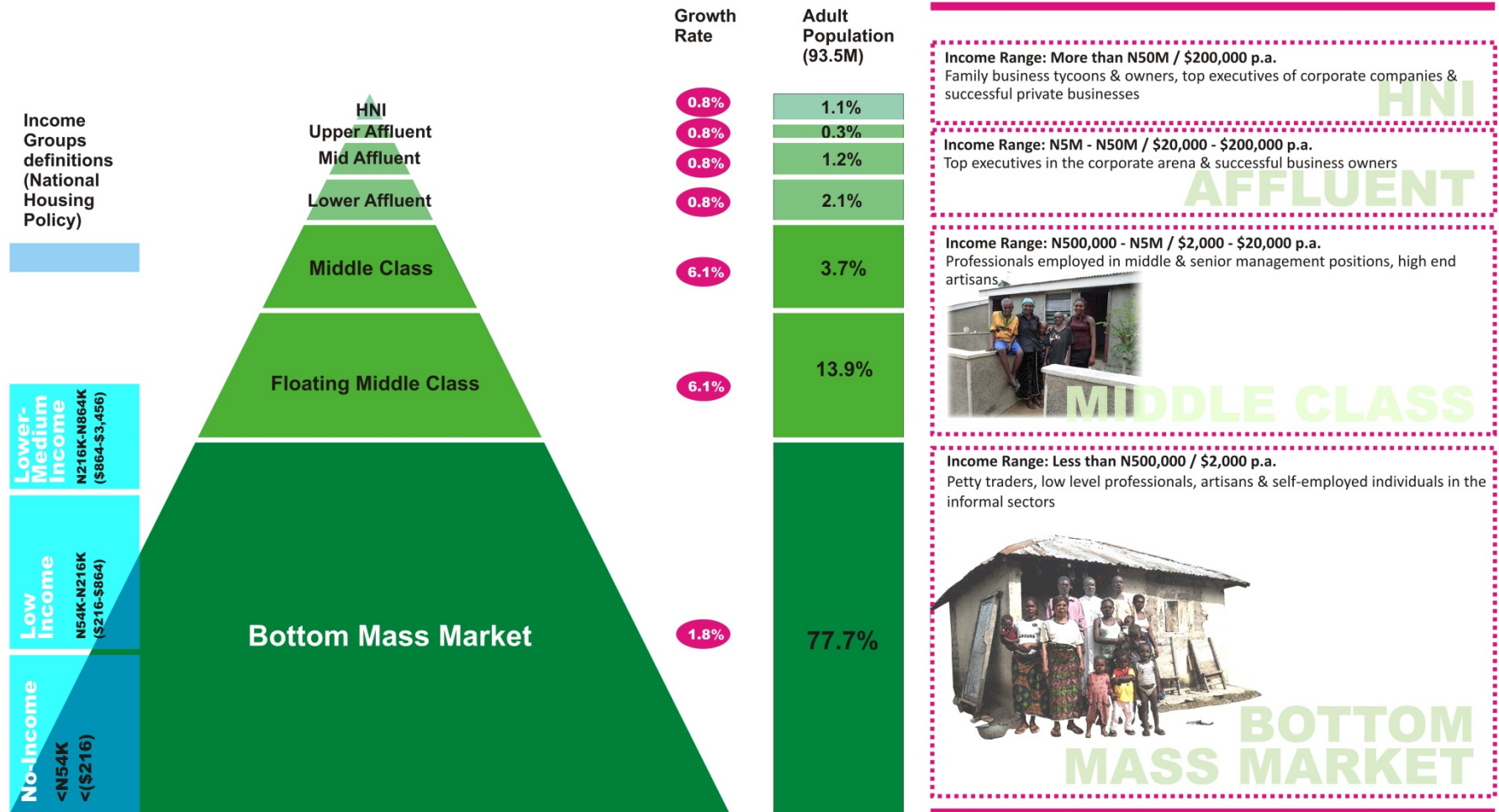
# Affordable Housing Gap and Challenge in Nigeria – The Diagnostics



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# Defining Affordable Housing

## INCOME CLASSIFICATION OF NIGERIAN ADULT POPULATION (2014e)



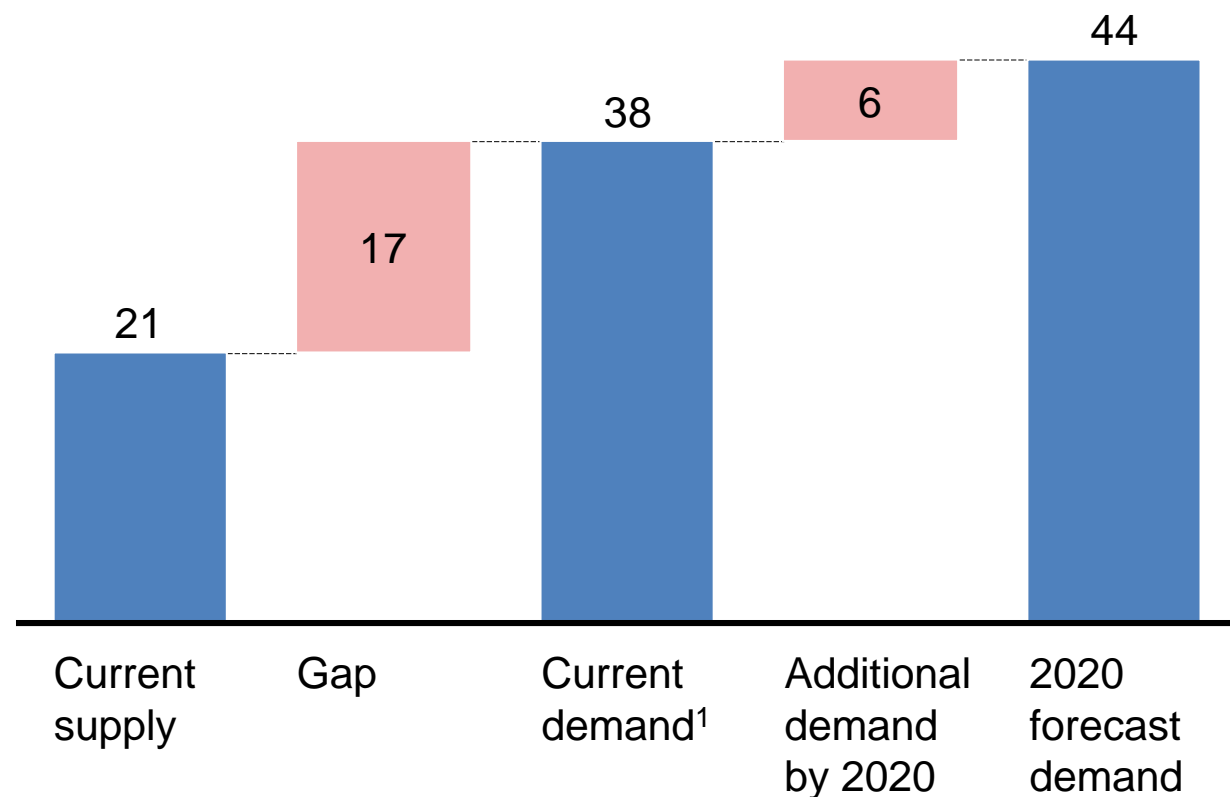
Sources: AfDB, RenCap 2011, KOMG BICSS, KPMG Analysis

# The Nigerian housing market currently has a deficit of about 17 million units



## Demand-supply gap

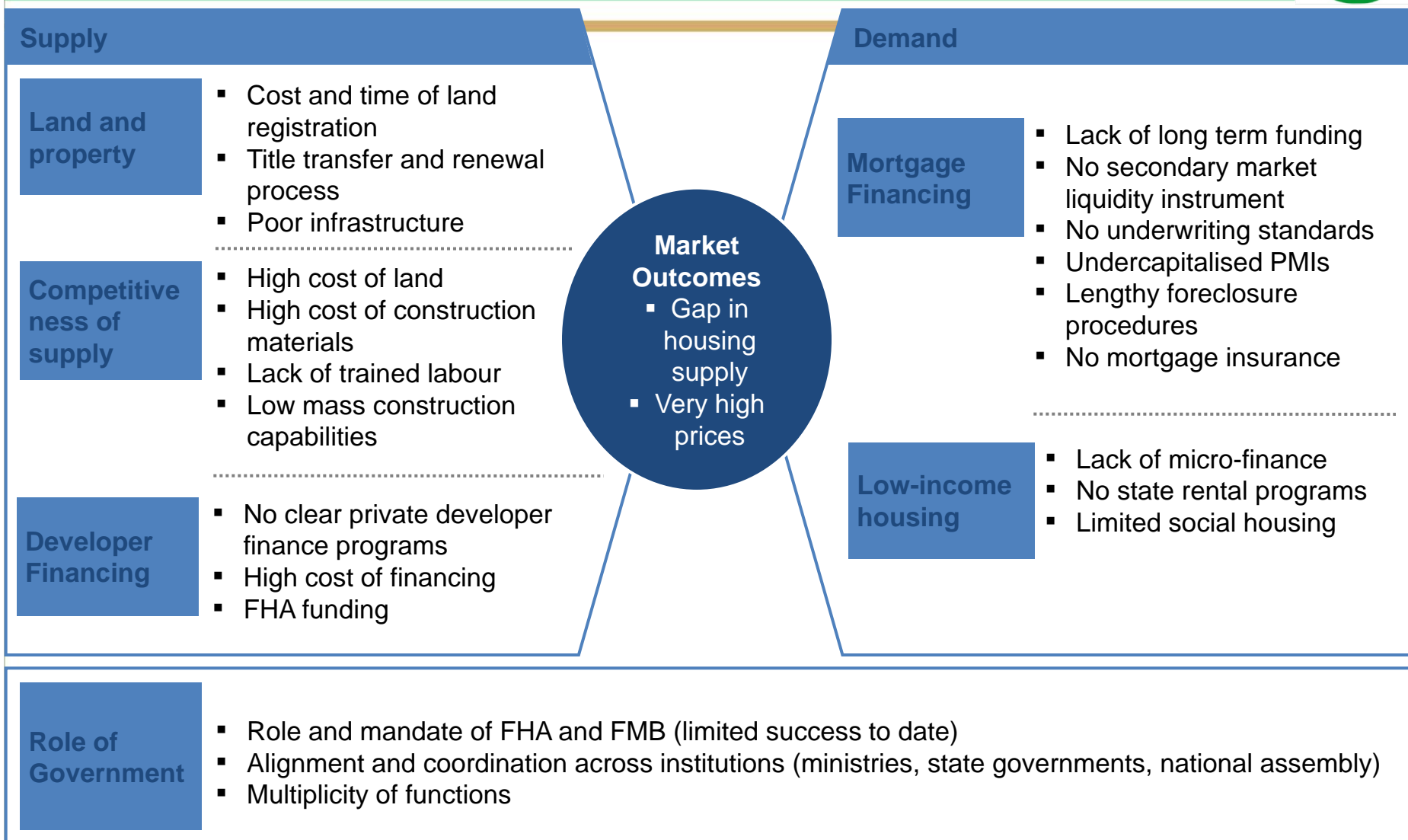
Millions of units



**Nigeria needs to add 23 million homes by 2020 to meet supply gap translating to 2.6 million homes a year**

<sup>1</sup> Number of households  
Current supply also include the under housed population

# Nigeria is currently experiencing challenges across a number of areas



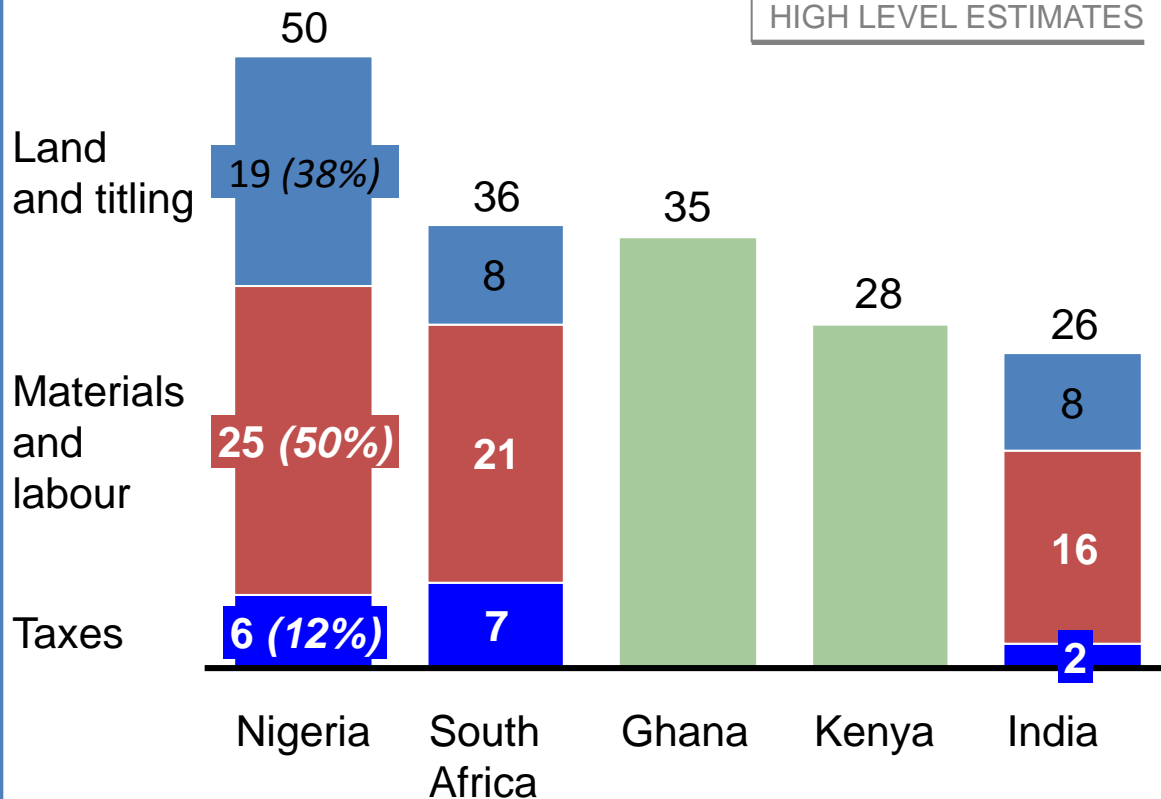
# Cost of housing development in Nigeria is very high, mainly due to high cost of land and building materials



## Cost of developing a 3 bedroom house<sup>1</sup>

Thousand USD

HIGH LEVEL ESTIMATES



The combined cost of acquiring land as well as high cost of building materials is driving up the cost of housing development in Nigeria

- Cement: 3x Kenya, 3x SA; 2x Ghana, USA 10x
- Steel : 3x SA, Kenya

<sup>1</sup> Average cost of a house assuming a house area of 100m<sup>2</sup> in an average neighbourhood

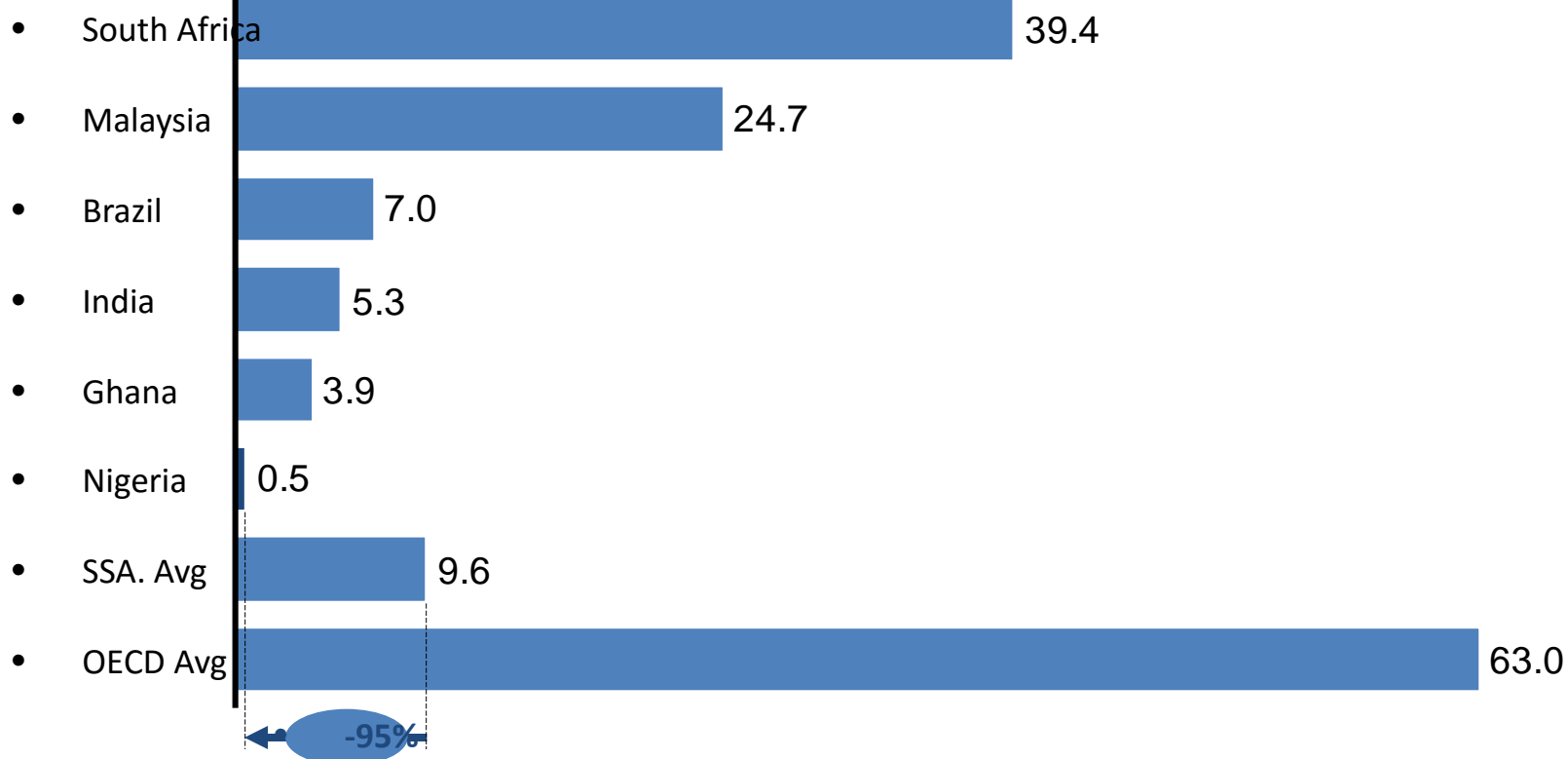
# Mortgages in Nigeria have very low penetration



**Nigeria's Mortgage outstanding to GDP is far less than the average in Sub-Saharan Africa**

## Mortgage Debt as a Percentage of GDP, 2009

Percentage



# Key Challenges for the Mortgage market



## Short Loan Tenor



## High Interest Rates



## Regulations (i.e. Title Transfers, Governor's Consent etc)



## High Cost of Housing



## Lengthy foreclosure process



## No mortgage insurance

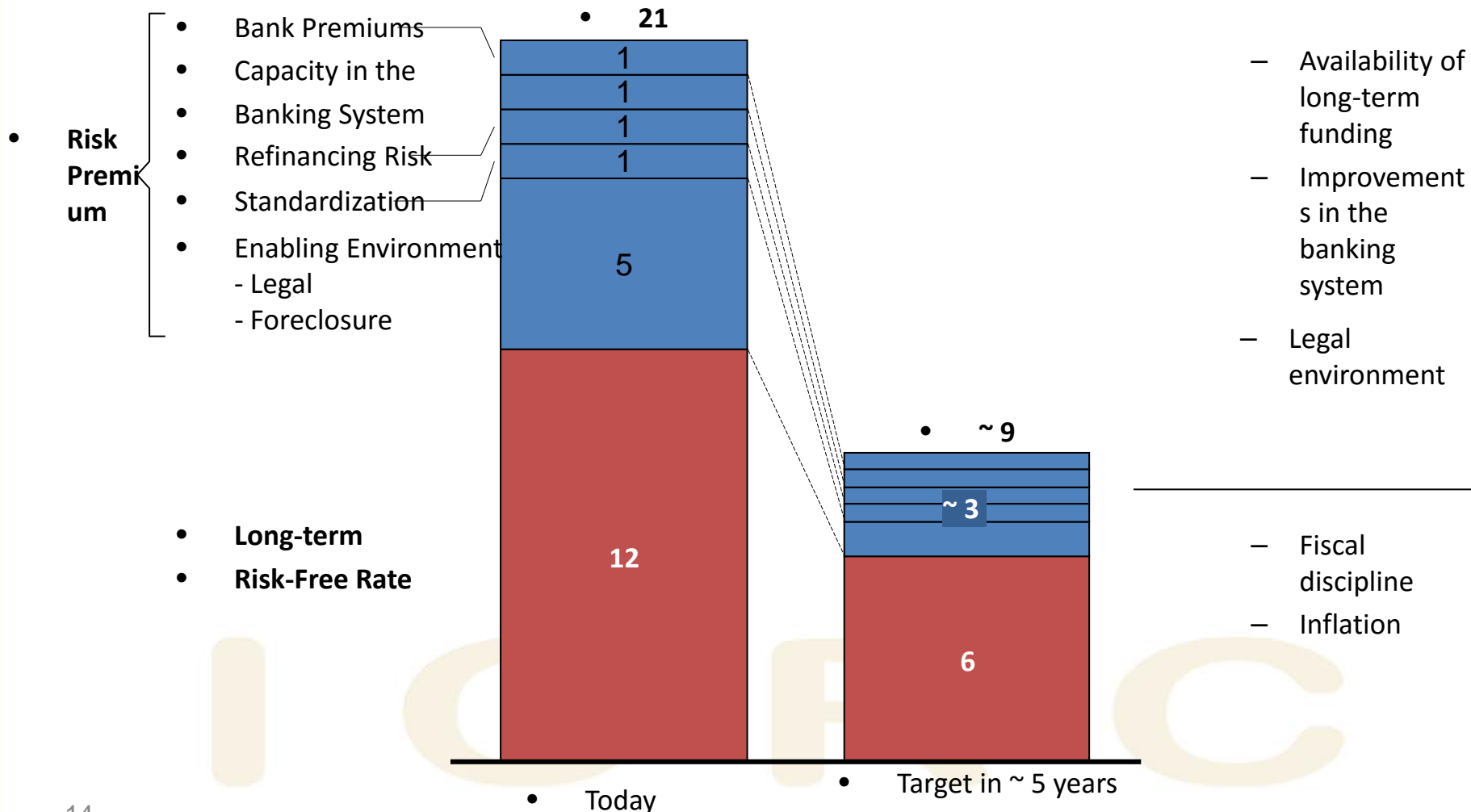


# Today's high interest rate is an aggregation of a number of factors



- Elements of mortgage lending rate in Nigeria
- %

## • Levers to reduce



# Affordable Housing Titbits



- ✓ **Access to decent affordable housing is so fundamental to the health and well being of people and the smooth functioning of economies that it is embedded in the United Nations Declaration of Human Rights**
- ✓ **Housing Affordability Gap is equivalent to \$650 Billion ie. 1% of Global GDP**
- ✓ **Affordable Housing is an overlooked opportunity for developers, investors and financial institutions**
- ✓ **Four key levers to drive affordable housing – unlock land at the right location; reduce construction costs through value engineering and industrial approaches; increase operations and maintenance efficiency; reduce financing costs for buyers and developers**
- ✓ **The definition of affordable housing varies across economies but generally it includes a financial component (the share of income devoted to housing), a standard for what constitutes minimum socially acceptable housing with a clear idea of what income groups are affected and at what income level households should be eligible for housing assistance**

- “Affordable housing is not about box sized budget homes in far flung places where there is no connectivity to work places and little surrounding infrastructure” (No 40x40x40x40 problem SA)
- An affordable house does not mean a **substandard house** or any **compromise on space, quality or facilities** as required by the family
- Affordable Housing has to cut across **all income segments** of the society and has to make **economic sense** – inclusive / complementary housing

# What truly Affordable Housing should look like in Nigeria



Truly Affordable House Values based on a 10-year mortgage and differing interest rates for a minimum wage earner (in Nigeria, minimum wage is ABOVE average income):

N667,000

N500,000

N393,000

0% Interest Rate from NGOs		Interest	0%
HOUSE VALUE	N667,000	Principal : Interest	100%
DEPOSIT (10%)	N66,700		
PRINCIPAL (90%)	N600,300		
INTEREST (10 YRS)	NONE		
TOTAL REPAYMENT	N600,000		
MONTHLY REPAYMENT	N5,000		

6% Interest Rate from FMBN		Principal : Interest  75% 25%
HOUSE VALUE	N500,000	
DEPOSIT (10%)	N50,000	
PRINCIPAL (90%)	N450,000	
INTEREST (10 YRS)	N150,000	
TOTAL REPAYMENT	N600,000	
MONTHLY REPAYMENT	N5,000	

18% Interest Rate from Open Market		Principal : Interest  46% 54%
HOUSE VALUE	N393,000	
DEPOSIT (30%)	N117,900	
PRINCIPAL (70%)	N275,100	
INTEREST (10 YRS)	N324,900	
TOTAL REPAYMENT	N600,000	
MONTHLY REPAYMENT	N5,000	

# Myths and Realities About Affordable Housing - 1

**Myth 1: There is no economic case for affordable housing.**

**Reality: Affordable housing can raise productivity.** Affordable housing in the right locations boosts the city's productivity by integrating lower-income populations into the economy and reducing costs to provide shelter and services. It enables labor mobility, opening a path to rising incomes, giving households more to spend on goods and services in their neighborhoods and, over time, enabling them to move up the income pyramid and help drive city GDP growth.

**Myth 2: Upper-income and lower-income housing markets are independent.**

**Reality: A city is an integrated housing market with a mixture of incomes.** Cities need to think of housing as one market, in which decisions at the top trickle down through all income groups and where market failures in any submarket have ramifications across the city. In a vibrant housing market, building new housing for upper income segments will ultimately free up housing for middle- and lower-income groups, either for rental or ownership.

**Myth 3: Addressing the affordable housing gap means investing in new buildings.**

**Reality: Renewal is as important as new building.** The existing housing stock and new units are complementary parts of the same solution. Existing housing, even in poor condition, may serve residents better by placing them where they have social connections and access to employment. Cities need to provide housing where residents can flourish, whether by building new units or supporting refurbishment, repairs, and upgrading of existing stock.

**Myth 4: Cities can guarantee decent housing by imposing high standards.**

**Reality: Affordable housing is part of a “ladder” of rising housing aspirations.** Uniform standards that are set too high can price poor households out of formal housing (without subsidies). It may be better to provide basic, safe shelter in appropriate locations, even with limited space or communal facilities, if it can house lowest-income households until their incomes rise.

**Myth 5: There is no land for affordable housing.**

**Reality: Cities have land at appropriate locations that could be unlocked.** Even in cities such as New York there are many parcels of under-utilized or idle land—including government-owned land—that could support successful housing development. Land can be freed for development through idle-land regulations, land readjustment and pooling, and transit-oriented development.

# Myths and Realities About Affordable Housing - 2



**Myth 6:** Construction costs are too high to make housing more affordable.

**Reality:** Proven technologies and approaches and regulatory support can enable large-scale, low-cost housing production. Industrial approaches (using components manufactured off-site), standardization, and improved purchasing and other processes can reduce cost by 30 percent. Uniform building codes can spread these practices and government can use its purchasing power to build scale for industrial production, which can require high capital costs.

**Myth 7:** Affordable housing is too risky to finance.

**Reality:** Financing for purchasers and builders can be made less risky and less expensive. With better data (valid property appraisals, credit ratings, use of non-traditional credit-rating data) and proper controls, lenders can reduce underwriting costs and safely lower rates for low-income borrowers. Contractual savings programs can help borrowers build down payments. Developer financing costs can be cut in many ways, including de-risking projects by guaranteeing occupancy and streamlining permitting.

**Myth 8:** Affordable housing is an unattractive investment.

**Reality:** Well-located, properly maintained, affordable housing can be quite profitable. Housing built for lower-income households runs a higher risk of dilapidation and value loss, but mostly due to weak asset management practices and poor choice of location. However, if housing is built where residents can connect to employment and vital services, and if management realizes scale efficiencies in operations and maintenance, properties can rise in value.

**Myth 9:** Affordable housing is a national-level problem.

**Reality:** Yes, lack of access to decent housing is a national issue, but the solutions are local. Cities are the logical unit for housing planning: they can work best with the public, government agencies, and the local private sector. Only local planning using household-level data across all income bands and local decision-making can achieve community consensus and success.

**Myth 10:** Affordable housing requires a massive commitment of government resources.

**Reality:** Speed of delivery may be the most important factor in success. If private developers can execute projects on tight, predictable schedules—and use cost-reducing strategies—the economics of affordable housing improve significantly. Cities must plan and oversee housing programs, but their greatest contribution might be ensuring that permitting and other development-related regulatory processes do not get in the way.

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