Scoping study: Overview of the housing finance sector in Zambia

Study commissioned by

FINMARK TRUST

May 2013, Lusaka

Section I - Introduction

Section II – Context

Section III – Housing Finance Value Chain

Section IV – Conclusions and Recommendations

Section I - Introduction

- Commissioned by FinMark Trust and Centre for Affordable Housing Finance in Africa (CAHF)
- Aims to provide a comprehensive overview of the housing finance sector in Zambia; updating earlier research commissioned by FinMark Trust in 2007 and 2009
- Part of a series of studies commissioned by FinMark Trust on the state of housing finance across Africa.

Scope, objectives and methodology

Scope
- Review housing finance mechanisms used, including in informal sector
- Show how housing finance operates within wider financial market
- Define the housing finance value chain

Objectives
- Assess market potential
- Reveal the gaps and niches available to providers
- Make recommendations on how to extend the value chain across all socio-economic groups

Methodology
- Research conducted in April-May 2012
- Interviews held in Lusaka, Mpongwe and Solwezi
- Semi-structured interviews, focus group discussions and quantitative data from secondary sources

Section I - Introduction

Section II – Context

Section III – Housing Finance Value Chain

Section IV – Conclusions and Recommendations

Section II – Context

- Market growth, risk and regulatory environment
- Housing market demand and supply

Market growth, risk, environment

Market growth – Macro-economy and demographics

- Has been significant market expansion
- Prolonged economic growth, and population expansion
- Economy still dominated by informal sector

Market risk – Country, credit availability/ cost, other lending options

- Country risk has reduced and credit conditions have improved, (although credit costs are still high, and availability of credit limited
- Domestic secondary markets immature and provide only limited source of long term credit

Regulatory environment

- Platform has been created for encouraging greater intermediation
- Uncertainty after recent regulatory changes

Housing market

1 **Home ownership has expanded**, although limited supply of suitable housing product and affordability constraints present asset and market risk

2 **Lending risk limits** the potential of achieving lower lending rates

3 **Self-build dominates the new build market**, providing a sustainable option to reduce housing (finance) costs

4 **Geographical variances**, suitable products and market limited to the main urban areas

5 **Rural and informal areas are generally not provided,** excluding majority of the population

6 Financial institutions are **cautious about lending on self-build**

Housing market demand and supply

Demand

- Different studies project housing need at between 1.3 to 2 million taking into account existing stock, new construction and demographic change
- Total households increased from 1,844,741 in 2000 to 2,635,590 in the 2010 census (representing a 33.4 per cent increase). This is a new household formation of 62,000 per annum over the same period.

Supply

- Housing supply has traditionally been below the rate of new household formation, (11,100 per annum between 1990 and 2000 censuses); 2010 census data is not available
- Most housing construction is incremental 'self-build' in urban and peri-urban. The latest Urban Development Plan for Lusaka indicated the urban area increased by around 50% between 2000 and 2007. This would equate to around 1,200 ha / 9,000 plots per annum, (based on 800 sq.m plot size and 60% coverage)

Housing market demand and supply

Affordability

- This disjoint between demand and supply is due to a lack of affordability between housing costs and real incomes
- In Avondale, a medium cost area in Lusaka, average house prices are above ZMW 500,000 ($100,000). This would require a monthly repayment of ZMW 6,300 ($1,260) based on the most competitive mortgage rates, (15% interest, 90% LTV, 15 year term)
- This is not affordable based on a median monthly income for the medium cost sector of around ZMW 2,000 ($400). This results in most people undertaking self-build construction

Section I - Introduction

Section II – Context

Section III – Housing Finance Value Chain

Section IV – Conclusions and Recommendations

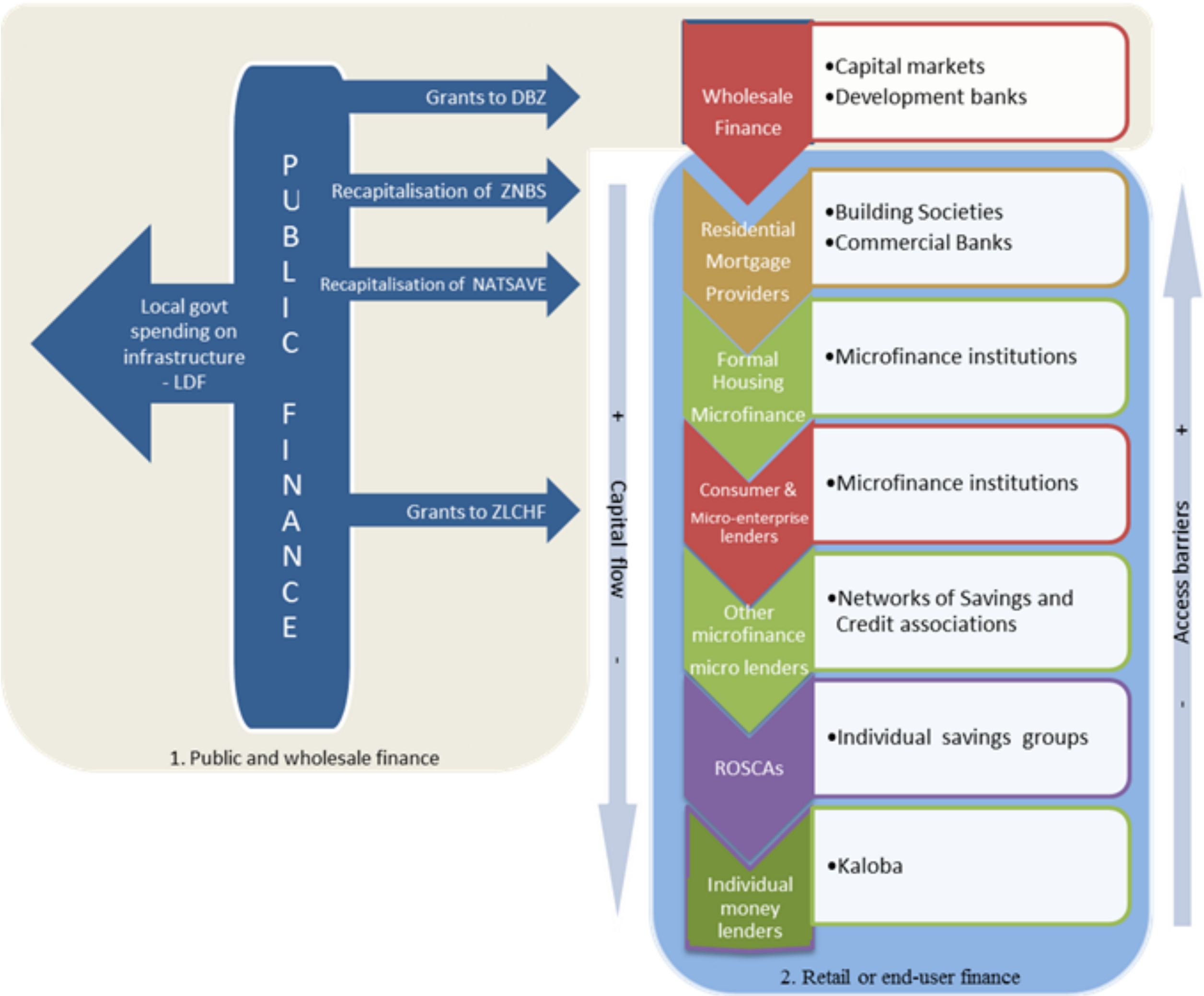
Section III – Housing Finance Value Chain

- Housing finance sector analysed through the Housing Finance Value Chain, (HFVC);

- Considers the supply-side actors, and the linkages that exist between wholesale financiers, retail financiers, and end-users.

- Considers the extent of existing access to the market.

The Value chain



Supply side actors

1 **Flow of capital** between wholesale financiers and retail financiers is limited;

2 **A number of potential providers**, (banks / building societies / MFI) – competition ought to contribute to lower interest costs;

3 **Traditional providers tend to compete** for the same space, (Served Zone);

4 **The HFVC expands down to middle and lower income groups** through MFIs and intermediary micro-lenders, although access is restricted;

5 These providers have a **better understanding of the market segment**, reducing risk through group lending and cooperatives.

Main actors wholesale and retail

Category	Type of FI	Products
Main actors – Wholesale		
Public Finance	• Local government, DBZ, NATSAVE, ZNBS, ZLCHF	
Wholesale finance (Private markets)	• Development banks (DBZ, Shelter Afrique) • Capital markets (LuSE, Badex)	
Main actors – Retail		
Residential mortgage providers	• Building societies • Commercial banks	• Residential mortgages • Home improvement loans
Formal housing microfinance	• Microfinance institutions	• Home improvement loans
Consumer and micro-enterprise lenders	• Microfinance institutions	• Consumer loans • Individual micro loans
Other microfinance micro-lenders	• Networks of Savings and Credit Associations (SACCOS)	• Micro loans (group loans)
ROSCAS	• Individual savings groups	• Micro loans
Individual micro-lenders	• Kaloba	• Micro loans (secured)

Finance products/ costs

- Most borrowing for housing finance is based on consumer finance rather than secured lending;
- Borrowing rates commercial banks (2011) average around **21%**; MFIs upwards of **35%**
- Most competitive mortgage terms **15%, 90% LTV, 20 yr tenor**
- Rates between secured and unsecured lending is not always that significant, suggesting that **financial institutions do not differentiate between risk**
- Rates offered between secured and unsecured, and payroll and non-payroll based lending is significant

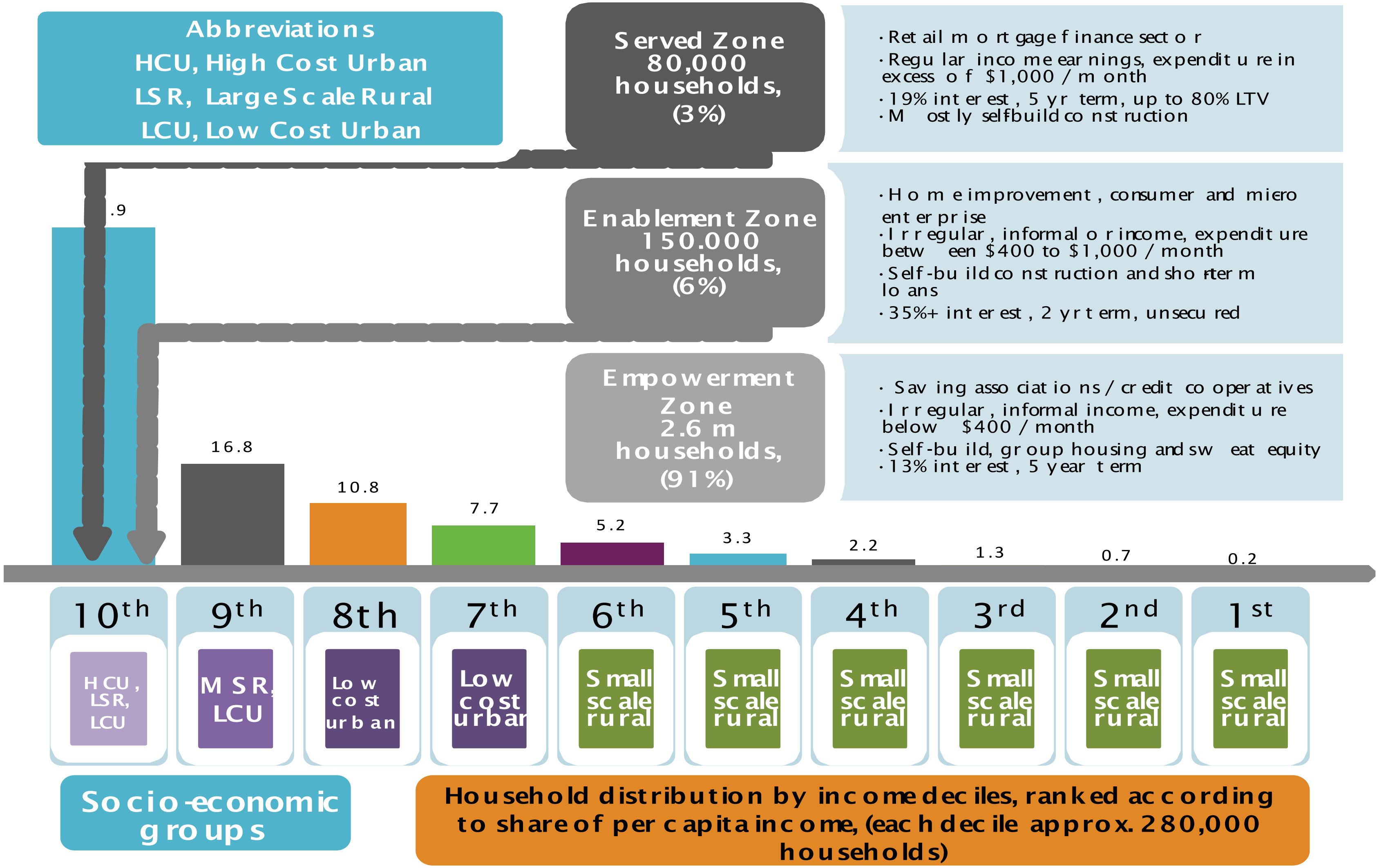
Affordability & Access matrix

Provider	Products	Access barriers		Interest rates	Average term
		Security	Income level		
Residential mortgage providers	•Mortgages	•Title, terminal benefits, pension	•ZMW6,000+	•19% (banks) 21% (building societies)	•5 years
	•Home Improvement Loans, (HILs)	•Terminal benefits, pension	•< ZMW6,000	•35% (2.5% per month)	•2 years
MFIs	•Home improvement loans (HILs),	•Payroll deduction, capital pledge, 3rd party guarantee, group pressure	•ZMW2,000 to ZMW10,000	•35% – 80%	•2 years
	•Payroll/ consumer loans	•Payroll deduction, capital pledge, 3rd party guarantee, group pressure	•<ZMW6,000	•50% to 100%	•0.5 years
	•Micro-enterprise loans	•Capital pledge, 3rd party guarantee, group pressure •Household goods	•ZMW2,000 to ZMW5,000	•50% to 100%	•0.5 years

Affordability matrix

Provider	Products	Access barriers		Interest rates	Average term
		Security	Income level		
•Intermediary money lenders – SACCOS ROSCAS	•Housing microloans, microloans, rotating savings	•None – group pressure	•Any	•10 – 13 % pa (housing microloans), up to 30% regular microloans	•8 years (housing) •1 month regular loan
Individual informal money lenders – Shylocks	•Emergency loans	•Collateral (real estate, motor vehicles and household goods).	•Any	•100%+	•From 1 week

Access based on income



Housing finance access - Served zone

- Served group; **approx. 80,000 households**, representing 3% of the households
- These have monthly income earnings in excess of ZMW 5,000 / $1,000, and **would be able to borrow upwards of ZMW 80,000 / $16,000**, (assuming 15% interest over five yrs).

- These have **potential access to housing finance products**, including conventional mortgages, although may not presently have a housing finance product
- However, due to housing / finance costs and entry restrictions, **access tends to be limited to self-build construction**, or borrowers need to have a much higher equity contribution
- Tend to be **in formal sector employment** and are either employers or are higher level managerial / administrative employees. They generally have **regular and ascertainable monthly incomes**

Housing finance access - Enablement zone

- Enablement group; **approx. 150,000 households**, representing 6% of the households
- These have monthly income earnings of between ZMW 2,000 / $400 to ZMW 5,000 / $1,000 and **would be able to borrow from ZMW 35,000 / $7,000**, (assuming 35% over two yrs)

- These have access to finance products, **but not the lower interest rate available on secured lending** due to housing costs and entry barriers, **access tends to be limited to new medium cost areas**, and mostly through self-build with cyclical loans
- **Include formal sector employees**, in employment groups other than the higher level managerial and administrative group. They generally have **regular and ascertainable monthly incomes**. Will also include individuals involved in **informal sector employment**, although financial access will be more limited

Housing finance access - Empowerment zone

- Empowerment group; **approx. 2.6m households**, representing 91% of the households
- These have monthly income earnings of below ZMW 2,000 / $400, and **would be able to borrow below ZMW 35,000 / $7,000**

- This group is **excluded from access to products** offered by most service providers found on the HFVC. Where finance is available, it is through credit unions and community based support groups
- Includes households mostly involved in **informal sector employment**

- In summary, **universal access to affordable housing finance is limited to a small segment**, restricting the remaining population group to consumer cyclical consumer borrowing and self-build construction

Housing market zones - profiles

- **Served**

Low density suburb, title deeds
Formally employed, financially stable
Small-scale contractor built
Multiple financing – savings, loans from commercial banks and MFIs

- **Enablement**

New medium density suburb, no title deeds
Self-employed irregular income,
small-scale unregistered contractor,
Savings

- **Empowerment**

High density, non-secure tenure
Irregular informal income,
Expenditure below $400 per month,
Self-build and informal builder
Savings

Section I - Introduction

Section II – Context

Section III – Housing Finance Value Chain

Section IV – Conclusions and Recommendations

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- By segment: Served zone
- By segment: Enablement and Empowerment zones
- By sector: Housing and Land markets
- By sector: Finance

Sector – Served Zone

1 Considerable room for expansion

- Together with the Empowerment Zone comprising only 10% of the market, but around 50% of per capita income
- Real growth in the Served Zone presents an opportunity for lenders
- Reasonable interest amongst the private market to expand

2 Required intervention of public and tertiary sectors

- **Continued macro reforms** to the finance sector as a whole, to reduce interest costs, and increase access to long term credit lines
- Creating an **enabling environment** by removing barriers, to make mortgage lending more feasible.

3 Required micro-reforms for the housing finance sector

- How to reduce market risk and therefore interest rates
- Improving the understanding of potential customers and risk profile
- Tailoring suitable products to meet target market

4 Housing market diversification and supply

- Housing of suitable size, quality and cost to provide an affordable product

Sector – Enablement & Empowerment Zones

1 Under-served potential of the Enablement and Empowerment zones

- Over 90% of the market
- Empowerment Zone comprising around 50% of per capita income
- Within a **context of economic growth and expanding population**

2 Private sector to be a source of commercially viable housing finance across the whole market

- **For the Enablement Zone,** strengthening HFVC linkages, and requiring public lenders to focus on excluded groups with the capacity to borrow
- **For the Empowerment Zone,** promoting strategic partnerships between public, private and tertiary spheres; using intermediary micro-lenders as a conduit
- **For Both,** development of alternative products and services

3 Land tenure, planning and building regulation reform

- A sustainable route for lower income groups to gain access to secured products

Sector - Housing and land markets

1 A clear vision and strategy

- For housing to provide clarity and improve investor confidence

2 One of the existing public sector institutions to lead on housing reform

- To lead reform and to provide an advocacy platform for housing.

3 Streamline land tenure

- To make the transfer process quicker and affordable to low-income earners

4 Responsive planning and building regulation

- To incorporate all urban areas, (including informal), and more proportionate development control

5 ZDA incentives on private investment

- Ensure incentives on private housing investment in housing are conditional on the provision of some low cost housing

6 Construction product innovation

- Projects financeable

Sector – Finance

1 Funds of apex institutions

• Focusing on housing lending

2 Strengthening linkages between the HFVC

• To improve the flow of capital between levels, and **improving access to the secondary markets**

3 Enforcing the Building Societies Act

4 Creation of strategic partnerships between private, public sector actors and the tertiary sector

• Matched funding to expand housing finance capacity in the tertiary sector, and on-lending to lower income groups

5 Build capacity in the housing finance sector

• Support institutions, (credit ratings and insurance)

6 Market research for financial product innovation

•Lifecycle studies

Contact details

Russell Drummond
Knight Frank Zambia
russell.drummond@zm.knightfrank.com

Bezant Chongo
PlaNet Finance Southern Africa
bchongo@planetfinance.org

Patience Mususa
People's Process for Housing & Poverty in Zambia
pmususa@googlemail.com

Thank you!