Urbanisation in Sub-Saharan Africa: Affordable Housing

Otavio Veras, Research Associate of the NTU-SBF Centre for African Studies

The growing urban population in Sub-Saharan Africa is rapidly driving up the demand for affordable housing in urban areas. On the one hand, there is the opportunity to build a more inclusive future, where every citizen has a decent house to call home. With the right policies and focused implementation, cities can concentrate businesses and services such as schools, hospitals and police, which allow more people to enjoy them. On the other hand, there is the difficulty of building infrastructure at a faster pace than that of the growth of the urban population, and of revamping slums and poorly planned areas. This is the second article on the "Urbanisation in Sub-Saharan Africa" series, following the "City Master Plans" article.

Urbanisation of Larger Cities and the Surge of Slums

The urban growth rate of Africa is almost 11 times higher than Europe's. Among the drivers of this movement are the high birth rate, rural-urban migration, expansion of urban settlements through annexation, reclassification of rural areas, and, in some countries, negative events such as conflicts and disasters. Given that African cities are among the poorest in the world, their growth rates signal a major challenge to their resource base, to build and to sustain adequate infrastructure and public services for their growing populations.

Innovative and targeted approaches to affordable housing are necessary if countries want to take advantage of the demographic shift to spur economic growth and expand job opportunities.

Unplanned urban growth leads to the indiscriminate spread of slums. At a 4.5% annual growth, by 2020, slums in Sub-Saharan Africa will host more than 200 million people, according to a 2014 United Nations report. At this rate, the number of people living in slums will double within the next 15 years. While in most of the world the number of people living in slums has dropped or, at least, remained fairly constant over the past 10 years, Sub-Saharan Africa's slum population grows by 5 million people every year (Figure 1). If this trend is not reversed, by 2050 most of the world's slum dwellers will be living in African cities.

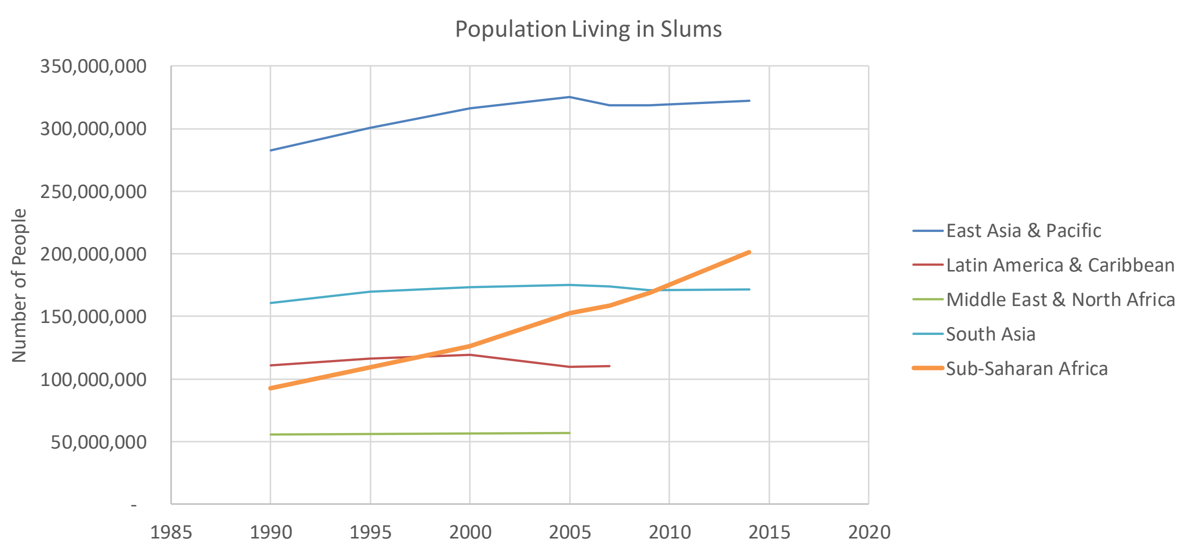

Figure 1 – Population Living in Slums[1]

[1] 2017 World Bank data

This staggering number of people living in substandard conditions is a direct result of inadequate urban planning and low investment by the governments. It is also an effect of the lack of a broader strategy that includes towns of intermediary sizes. Although large and very large cities are in some ways the leading edge of urbanisation, because of their influence and economic importance, they are not the fastest growing, nor do they represent the majority of the urban population. Figure 2 shows that by 2030, towns with between 300,000 and 1 million people will make up the majority of cities in Sub-Saharan Africa by number of cities.

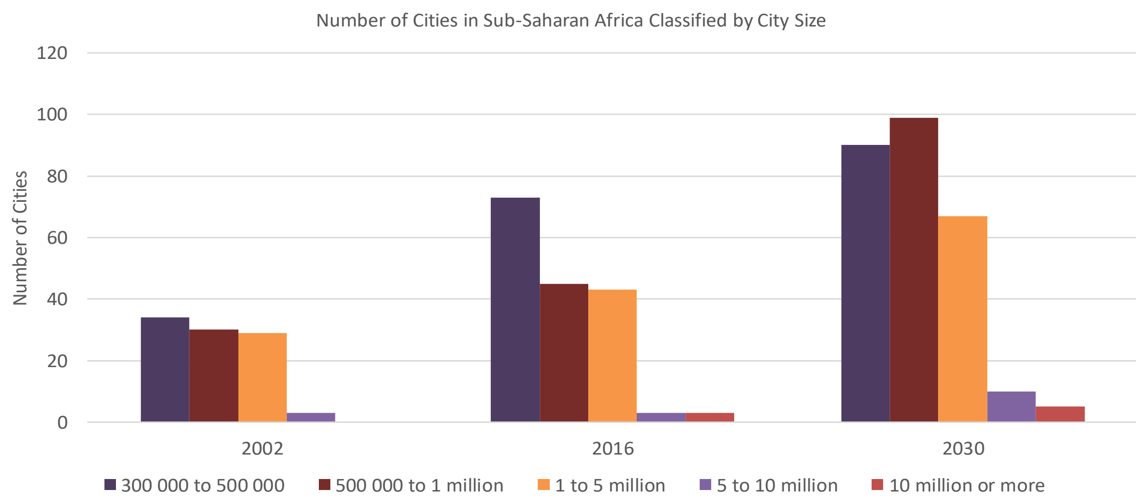

Figure 2 – Number of Cities in Sub-Saharan Africa classified by City Size[2]

The fastest growing urban centres are the small towns with less than 300,000 people (Figure 3), which account for 46.4% of Sub-Saharan Africa's urban population. Despite the demographic importance and potential role of such cities, urban planning efforts in developing countries have focused disproportionately on the problems of large metropolitan areas, thereby contributing to urban primacy. If small and medium cities are to fulfil their potential, they should form part of the new urban agenda for developing countries.

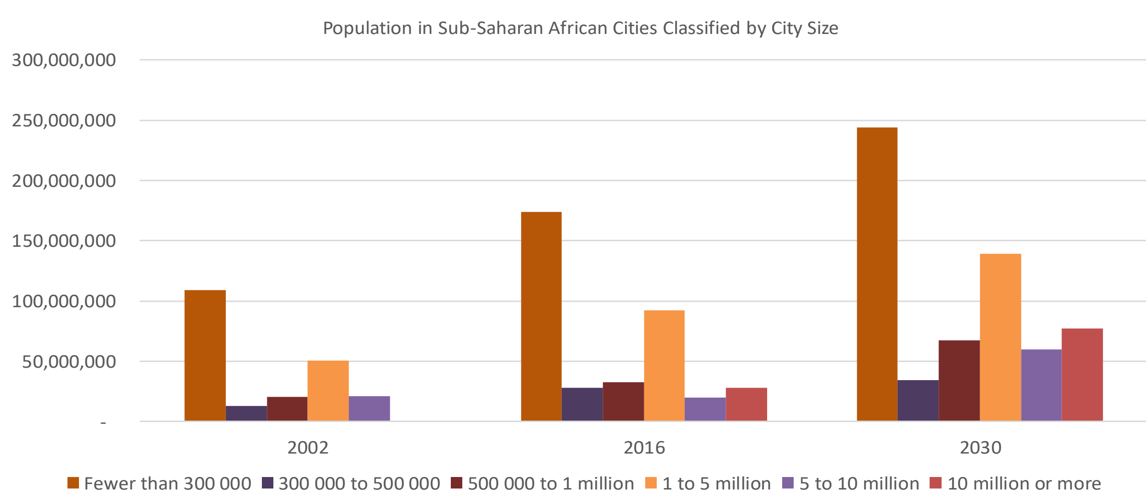

Figure 3 – Population in Sub-Saharan Africa Cities classified by City Size[3]

[2] 2014 United Nations data (World Urbanisation Prospects: The 2014 Revision)
[3] 2014 United Nations data (World Urbanisation Prospects: The 2014 Revision)

How is Rwanda tackling the Urbanisation Challenge?

Sub-Saharan Africa cities face the constant challenge of ensuring that urbanisation generates sufficient economic growth to provide decent jobs for the rapidly growing labour force. However, what is normally observed is that living conditions are often deficient, unsafe and without basic services like water, electricity and sanitation. An example of this can be found in the suburbs of Gihara and Ruyenzi, which surround Kigali, capital of Rwanda. Under pressure from growing demand, districts have had to revisit their master plans or accept land use adjustments after areas that were zoned for agricultural production became fragmented. Others have tried to tighten zoning rules in a bid to protect farmland from encroachment by property developers.[4] In a small landlocked country like Rwanda, the conversion of arable land to residential purposes poses a risk for the long-term food security of the country.

However, the country is also making efforts to grow the supply of affordable housing by extending tax breaks to developers and investors focused on this residential segment.[5] In a 2012 study conducted in Kigali, it was estimated that by 2022, the capital of Rwanda will need 340,000 new housing units, with a 78% demand for new housing concentrated in the lowest income quintile, where households earn less than US$ 350 monthly.[6]

Although the demand for affordable housing in Rwanda is as high as ever, developers still struggle to lower the cost of newly built residences. One way to help on this matter is by having the government provide basic services such as electricity, sewage, water and roads.

Another approach by the government in Rwanda in tackling this issue is through the creation of an Affordable Housing Development Fund. In June 2017, the Development Bank of Rwanda approved a US$ 330 million fund that will help low income earners build their houses. The fund will target Rwandans with a monthly income between US$ 200 and US$ 800 by providing loans at a 10% annual interest rate, repayable within 25 to 30 years. Previously, low income earners could only access loans to be repaid within 10 to 20 years and at an annual interest rate of 17%.[7]

The National Housing Policy of Rwanda highlights that despite the constraint of high interest rates, the greater challenge is the extremely low and intermittent nature of household income of most of Rwandan nationals. Lowering the interest rate for homeowner mortgages would not cause significant change for the lowest income earners. In 2014, only 5% of adults in Sub-Saharan Africa obtained a loan from a formal financial institution, half the rate of other developing regions such as South Asia or East Asia and the Pacific.[8]

A study of both local and foreign institutional investors estimates that the banking sector in East Africa has about US$ 1.2 billion in capital available for long-term lending. Pension funds have provided over US$ 100 million in medium-term loans to commercial banks in the region for mortgage lending. While stock markets are increasingly a source of interest, their impact is limited. As a result, local capital in the East African region is a fraction of the US$ 42.2 billion that is estimated to be needed to address the housing delivery potential in the region.[9]

The IFC, an international financial institution and part of the World Bank Group, is in partnership with Chinese construction and engineering company CITIC in a US$ 300 million investment project to develop affordable housing in multiple African countries. The residential projects will involve hiring local housing

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[4] Food security fears rise as urbanisation takes root in Rwanda (The East Africa, Jan 2017)
[5] Rwanda: New Govt Initiatives Will Attract More Investors in Affordable Housing – RHA (The New Times, Apr 2017)
[6] Housing Market Demand, Housing Finance, and Housing Preferences for the City of Kigali (Planet Consortium, Jun 2012)
[7] Cabinet approves Rwf 290 billion Affordable Housing Financing Fund (IGIHE Network, Jul 2017)
[8] Growing African Cities Face Housing Challenge and Opportunity (The World Bank, Dec 2015)
[9] Housing Finance in Africa (Centre for Affordable Housing Finance in Africa, Oct 2017)

developers and it aims for the construction of 30,000 homes across the continent before 2020. The first affordable housing projects financed through this platform will take place in Nigeria, Kenya and Rwanda, and from there expand operations to other countries.[10]

Affordable Housing in Kenya

Kenya has taken house ownership in a proactive way. President Uhuru Kenyatta has set the goal of increasing the number of affordable housing projects during his term as one of the four pillars of his second mandate. As part of this strategy, in April 2018, a public-private partnership that will help finance affordable housing in Kenya was announced. The Kenya Mortgage Refinance Company (KMRC), as the partnership is called, will be launched early in 2019 and aims to develop the primary and secondary mortgage markets through the provision of secure, long-term funding to the mortgage lenders. The funds raised by KMRC will allow banks to issue additional 50,000 mortgages in five years. Currently, Kenya's total mortgage loans book stands at 24,000 mortgages.[11]

The ambitious plan of President Kenyatta has the objective of building one million housing units by 2023. Kenya has an accumulated housing deficit of two million units (Figure 4), with current production of less than 50,000 units per year, far less than the quantity necessary to give everybody a roof to live under. The programme has an estimated cost of US$ 26 billion,[12] which is approximately 37% of Kenya's GDP in 2016, i.e. US$ 70.5 billion.[13] This does raise questions on the sources of funding, as it is clear the country will struggle to finance the programme with internally generated funds.

As part of the strategy, the Kenyan government plans to drop the cost of a housing unit from US$ 50,000 to US$ 15,000. The 70% drop will be supported by free public land to private property developers and building of access roads, electricity and water connection to housing schemes.[14]

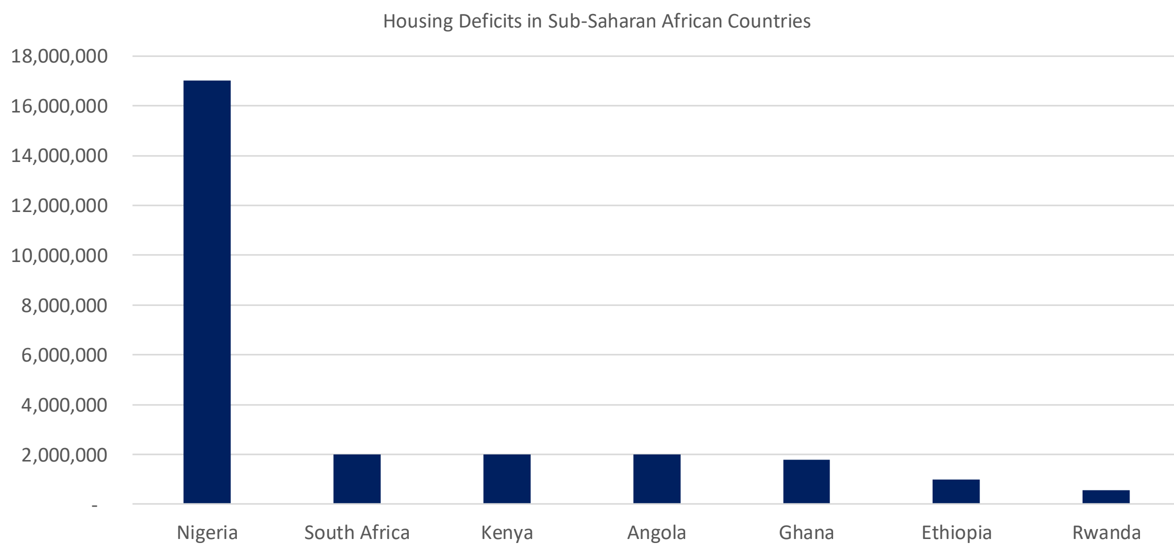

Figure 4 – Housing Deficits in Sub-Saharan Africa Countries[15]

[10] IFC links with CITIC construction to meet African housing needs (IFC website, Jun 2015)
[11] Kenya: Treasury Sets Up Financier for Kenyatta's Low-Cost Home Loans Plan (All Africa, Apr 2018)
[12] Kenya to construct one million houses at Sh2.6 trillion by 2023 (The Star, Jan 2018)
[13] Kenya's GDP in current USD (World Bank website)
[14] State says house to cost Sh1.5m in 'Big Four' plan (Daily Nation, Apr 2018)
[15] Centre for Affordable Housing Finance in Africa, 2017

When Affordable Housing is not Affordable to All

When housing is constructed for low-income groups, it may remain financially inaccessible, or become sub-rented to middle class groups, meaning that the urban poor continue to live in areas without access to public services like clean water, sewerage, electricity and paved roads.

This disparity between plan and reality creates an intertwined mix between new residential developments and unregulated settlements that grow up adjacent to them. The new developments thus function as an enclave, and although there may be significant social and economic exchange between the two communities, spatial segregation remains distinct.

That was the case of Kilamba, Angola, a modern residential development opened in 2012. As construction progressed, an unregulated settlement grew parallel to Kilamba, and despite their interdependencies, a single road establishes a clear boundary between the two (Figure 5). Residents living in the area east of Kilamba do not have access to the clean water, reliable electricity, well-maintained roads, and sewage system. Projects such as Kilamba should extend public services to surrounding areas, anticipating the growth of unregulated communities rather than ignoring it.

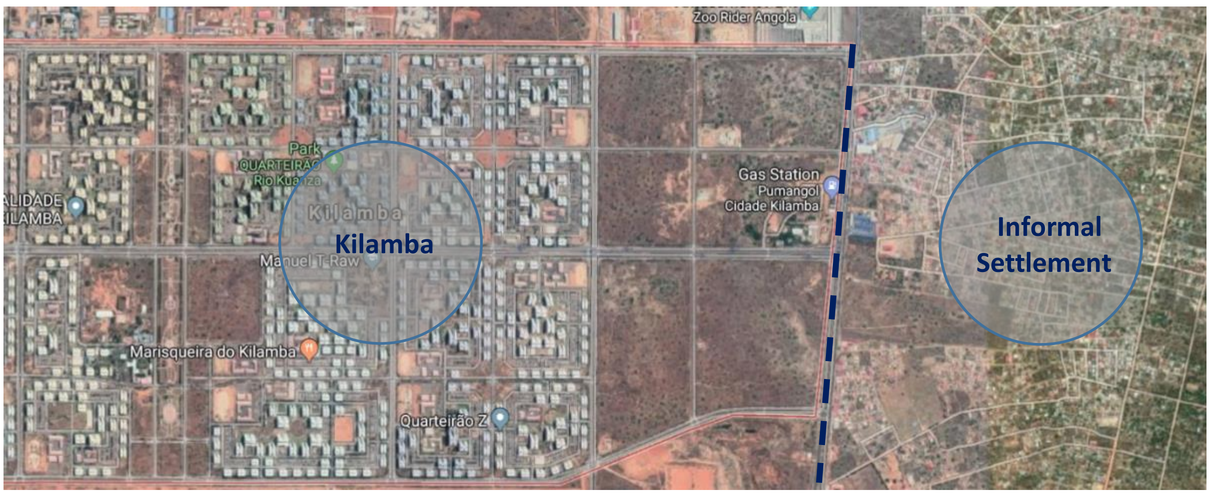

Figure 5 – Kilamba Residential Development in Angola and Informal Settlement that grew next to it

A broad approach is needed to make housing affordable by addressing cost-efficiencies in design, construction and construction management; the increase of available material resources; the decrease of unit sizes and floor area per person; the use of new technologies that allow lower construction costs; and settling households closer to economic opportunity.[16]

One example of how important it is to target the right demographic in new developments is observable in Kigali's Vision City. With construction started in 2013 and completion forecasted in 2021, the residential complex financed by the Rwanda Social Security Board is intended to compose of 22,000 units, which will include apartments with 2 to 5 bedrooms, villas and landed houses. The first phase of the project was completed in July 2017 and only reached about 30% of occupancy. Units ranged from about US$ 177,000 for a two-bedroom apartment, to about US$ 500,000 for a five-bedroom townhouse. However, the prices were quickly reduced by a third to encourage sales.[17] Still, at US$ 124,000, the smallest unit was only affordable for 0.1% of the urban population in Rwanda.

[16] National Housing Policy (Ministry of Infrastructure of Rwanda, Mar 2015)
[17] Developer slashes prices for Vision City homes (The New Times, Jul 2017)

Parallel to the problem of high housing costs is the inability of most of the developers to actually do the job. It is not clear that the housing sector would be able to absorb more investment at this stage. The investment funds that do exist struggle to find viable projects, or developers with sufficient capacity to meet their investment terms. Shelter Afrique, a pan-African finance institution focused on the housing market, has noted that outside of South Africa, there are very few developers with the capacity to deliver more than 500 units per annum for more than three years.[18]

It is worth considering housing affordability for a much cheaper house. In Nigeria, the Millard Fuller Foundation has developed an incremental starter house for about US$ 7,500.[19] All else being equal, if this house was available across the continent, it would be affordable for more than 50% of the population in 24 countries. This latent demand is equivalent to about 52 million housing units and has the potential to generate almost US$ 400 billion of economic activity just with the construction.

The World Bank estimates that, at current prices, in most of Sub-Saharan African countries, less than 10% of the population can afford to buy a house. The economic benefits generated by housing construction also trickle down through society, advancing the lives of many. For every house built, five jobs are created.

Concluding Remarks

An important fact that should be observed is that in most of Sub-Saharan African countries, urbanisation has not necessarily been accompanied by industrial growth and the structural transformation that has occurred in other regions, nor by the same level of income. For example, Sub-Saharan Africa reached 38.3% of urban population in 2016, with a GDP per capita of US$ 1,640. East Asia and the Pacific reached the same level of urbanisation in 1996 at a US$ 5,000 of GDP per capita (Figure 6). The comparatively low growth in per-capita income in Sub-Saharan Africa limits the resources that households have to consume or invest in housing.[20]

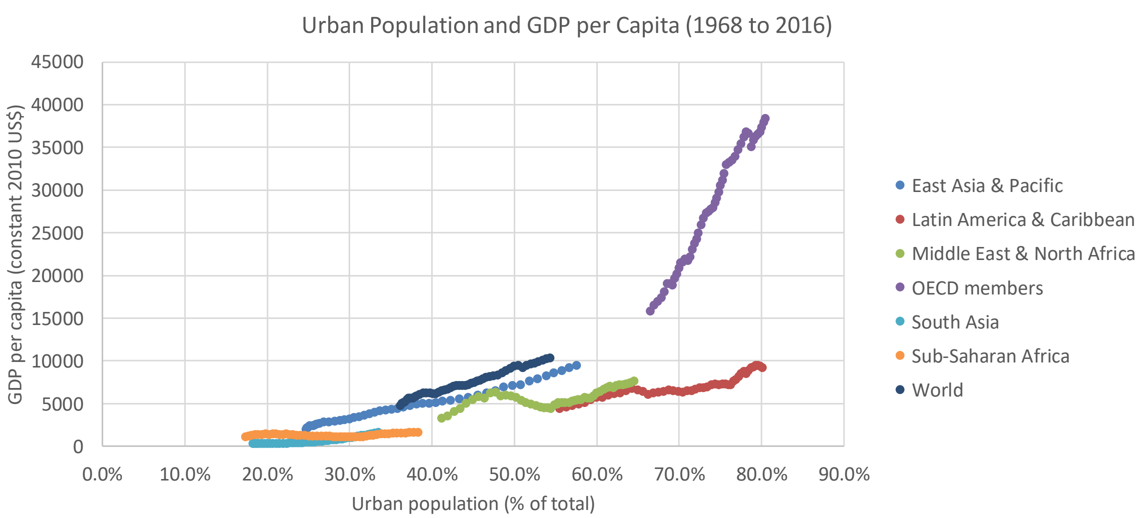

Figure 6 – Urban Population and GDP per Capita[21]

[18] [Housing Finance in Africa (Centre for Affordable Housing Finance in Africa, Oct 2017)]
[19] [The Millard Fuller Foundation website]
[20] 2017 World Bank data
[21] 2017 World Bank data

Access to a diverse, quality housing stock that is affordable to households, will set a foundation for inclusive growth in rapidly urbanising cities. For most households, purchasing or building a house is the single largest expenditure they will ever make.

A home is also typically the most important household asset and an investment that can appreciate in value over time, be used for collateral for borrowing and be an important component of intergenerational wealth transfer through inheritance. Where housing is located in proximity to schools, jobs and transit access, this directly impacts the quality of urban life and prospects for social mobility. Finally, housing stocks, along with investment and employment in related construction and finance industries, constitute a major component of national economic wealth.

The financing of affordable housing projects remains a major challenge. As seen above, the governments in both Kenya and Rwanda have had to intervene to lower the cost of housing to the buyers. This remains a challenge in Africa, given the low levels of income of a significant part of the population in many African countries. Developers and governments should therefore look at designing innovative schemes to finance affordable housing projects. Public-private partnerships are one way to address the challenge, but the devil lies in the detail. What is problematic from the perspective of the private developers is that they do not always trust the governments to abide with the agreed upon arrangements. Having said that, however, it is clear there is a trend that shows that the middle class is growing steadily, which creates a grouping of African consumers that would be able to fund their own housing. The challenge again lies with the large group of consumers at the bottom of the pyramid who cannot.

Africa could look at the Singapore model, where affordable housing is one of the central tenets of a stable society, politically and economically. The Housing Development Board in 1964 introduced the Home Ownership for the People Scheme to give citizens a tangible asset in Singapore and a stake in nation-building. In 1968, to help more become home owners, the government allowed the use of Central Provident Fund (CPF) savings for the down-payment and to service the monthly mortgage loan instalments. This, together with other schemes and grants introduced over the years, has made home ownership highly affordable and attractive. Over the years, various CPF housing grants, such as the Additional CPF Housing Grant (AHG) and Special CPF Housing Grant (SHG), have also been introduced. These housing grants ease the financial burden of low-income and middle-income households in buying their first apartment.[22] The challenge is obviously how to apply this model to Africa.

The housing sector in Sub-Saharan Africa is in urgent need of restructuring. As Africa's urban transformation continues and the size of the urban population in African countries increases, the availability of quality housing and the build-up of a functional housing sector become key priorities to create functional and liveable cities, and to support national economic growth and job creation objectives.

The author, Otavio Veras, is a Research Associate of the NTU-SBF Centre for African Studies, a trilateral platform for government, business and academia to promote knowledge and expertise on Africa, established by Nanyang Technological University and the Singapore Business Federation. Otavio can be reached at overas@ntu.edu.sg.

[22] Public Housing – A Singapore Icon (Singapore Housing & Development Board)