

# **SANAD Housing Finance Study MENA**

## **Research and Field Visit Results**

Finance in Motion

Frankfurt

March 9, 2016

Hans-Joachim Dübel, Olivier Hassler

# Contents

**Phase I - Analysis of Demand and Supply Landscape in Six MENA Countries, Research**

**Phase II - Field Visits to Three Priority Countries**

# MENA Country Selection

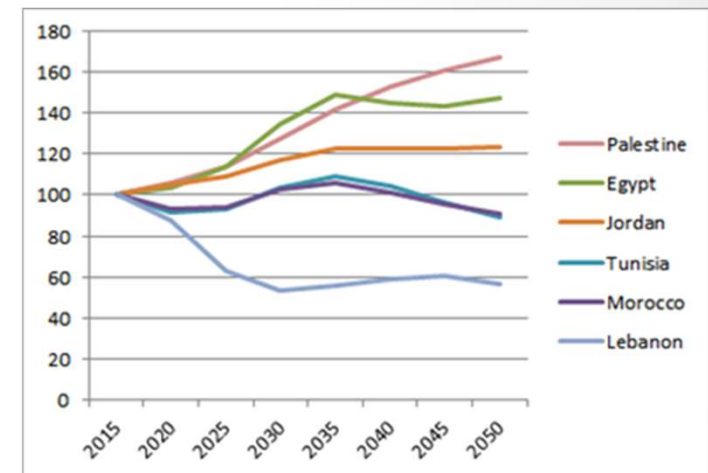


# Structure of the Study

- **Housing Finance Demand**
  - **Housing Needs**
  - **Housing Investment Gap**
  - **Bankability of Households**
- **Housing Finance Supply**
  - **Mortgage Finance**
  - **Non-Mortgage Housing Lending**
  - **Housing Assistance Programs**
- **Country Selection for Field Visits**

# Housing Needs

## Age Group 15-25



## Housing Needs Calibration

	Population Number	Households Number	Average HH Size	Stock*	Cohabitation Deficit**	..plus Q & S Lump-sum***	Deficit % of stock	Population Increase	Households**** Increase	Housing Needs***** per annum	
	2015	Latest	Latest	Latest	Latest	Latest	Latest	Thousands	Thousands	Thousands	implied
								2015-2050 (p)	2015-2050 (p)	2015-2050 (p)	CAGR of stock
Morocco	34,378	7,314	4.70	6,706	200	871	13.0%	5728	1741	75	0.94%
Tunisia	11,254	2,713	4.05	3,290	0	329	10.0%	1061	374	20	0.56%
Egypt	91,508	20,797	4.40	19,323	1474	3406	17.6%	45753	14855	522	1.92%
Palestine	4,668	798	5.85	710	88	159	22.4%	4024	983	33	2.78%
Jordan	7,595	1,406	5.40	1,323	83	215	16.3%	3132	829	30	1.68%
Lebanon	5,851	1,361	4.30	1,293	68	197	15.3%	-770	-256	-2	-0.13%

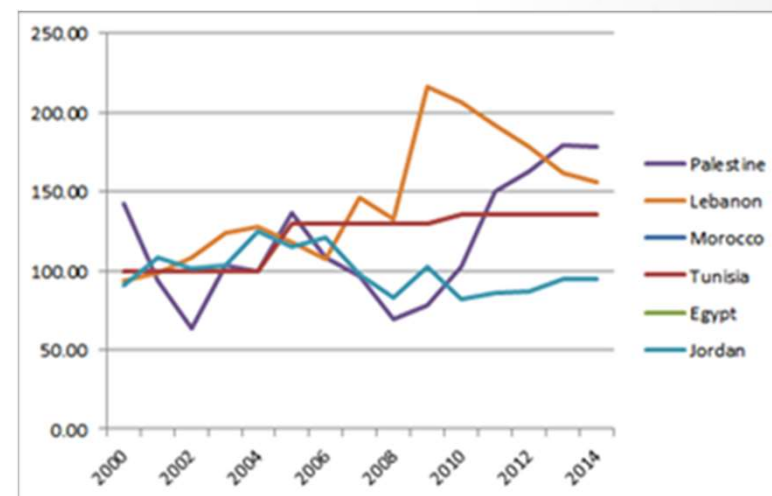
# Housing Investment Gap

## Production Gap Analysis

	Housing needs		Replacement*		Construction**		Production gap	
	Thousands 2015-2050 (p)	implied CAGR of stock	Thousands 2015-2050 (p)	implied CAGR of stock	Thousands Latest av since 2010	implied CAGR of stock	Thousands Latest	implied CAGR of stock
Morocco	75	0.9%	192	2.0%	110	1.3%	156	1.6%
Tunisia	20	0.6%	94	2.0%	80	1.8%	34	0.8%
Egypt	522	1.9%	552	2.0%	200	0.9%	874	3.0%
Palestine	33	2.8%	20	2.0%	12	1.3%	41	3.4%
Jordan	30	1.7%	38	2.0%	10	0.7%	58	3.0%
Lebanon	-2	-0.1%	37	2.0%	14	0.9%	21	0.9%

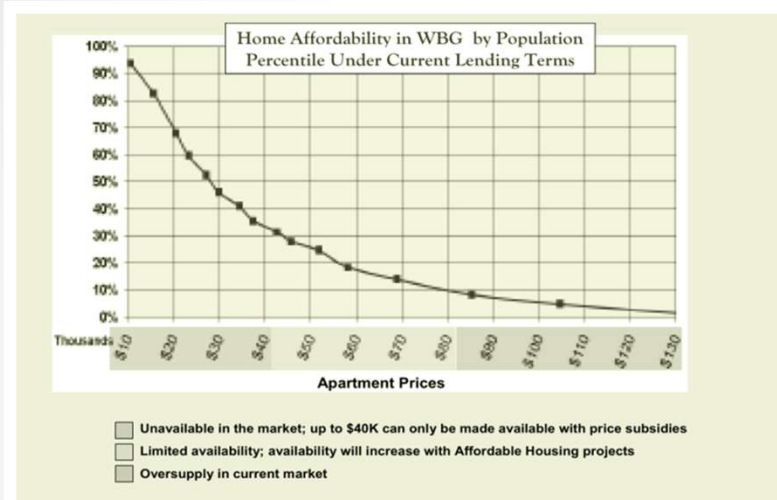
- Significant quantitative gaps
  - In Egypt, Palestine, Jordan, very limited or highly cyclical new construction
  - Morocco and Tunisia with steady high construction levels
- Existing stock investment activity as large as new construction
  - Esp where new construction has been subdued, e.g. Palestine, Jordan (extensions).

## Proxies for New Construction Activity



# Low Cost Housing Markets

## Palestine – Housing Supply and Affordability



## Affordable House Prices per Income Quintile, USD

Affordable house price @ 5%, 30 years					
	I	II	III	IV	V
Morocco	20,000	20,000	30,000	30,000	40,000
Tunisia	30,000	40,000	40,000	40,000	60,000
Egypt	40,000	40,000	40,000	40,000	50,000
Palestine	30,000	40,000	40,000	40,000	60,000
Jordan	60,000	70,000	70,000	70,000	70,000
Lebanon	#NV	#NV	#NV	70,000	#NV

Note: at the household level

- Structural and policy gaps in low-cost construction
  - High engineering, planning, cultural/demand standards.
  - Egypt, Jordan: low-cost land approaches neglect transportation costs.
  - Palestine: political land markets, developer cartel capturing banks.
- Closure requires co-ordinated policy approach
  - Morocco: with system of tax incentives and demand (credit) policies tied to maximum house prices, competitive developer market.



# Bankability of Households

## Access to Finance Indicators

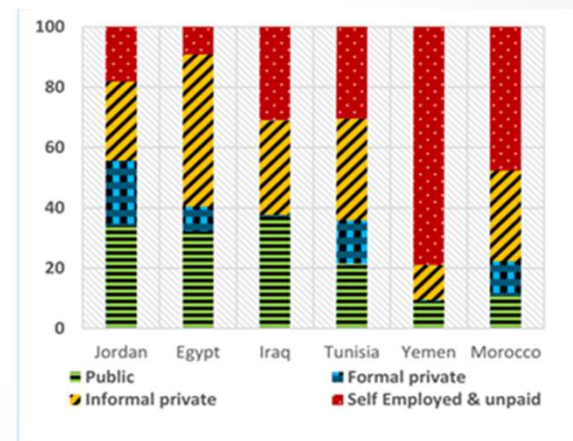
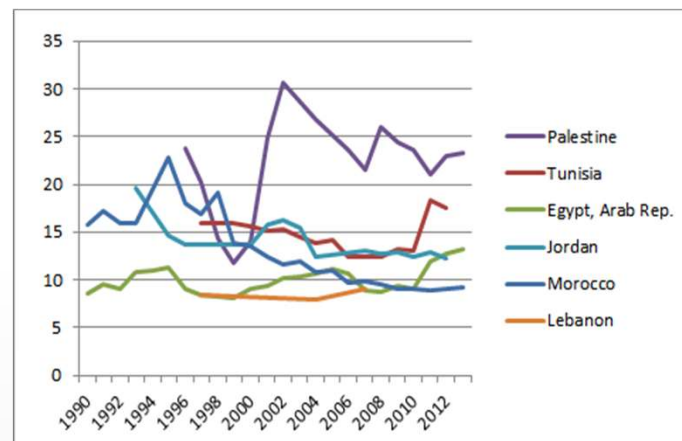
% of adults (>15 years)	Egypt	Jordan	Lebanon	Morocco	Palestine	Tunisia
with a financial account**	13.7%	24.6%	46.9%	39%***	24.2%	27.3%
(Δ / 2011)	(+4%)	(-0.9%)	(+9.9%)	n.a.	(+4.8%)	n.a.
with a mobile account	1.1%	0.5%	0.7%	n.a.	0.7%	0.6%
with a mortgage outstanding	6.2%	14.9%	18.0%	n.a.	4.7%	10.7%

Access factors:

- Mobile banking still less developed than in other regions,
- Postal/savings/coo perative banks not widespread (now Morocco),
- MFI sector size and access to deposits.

- Depth and breadth of financial systems
  - MENA region relatively backwards globally especially in the lower income segments
- Informality, unemployment
  - Structural unemployment
  - Youth unemployment
  - Refugee exclusion from labor markets

## Official Unemployment and Employment Structure





Source: World Bank (WDI), for detail see study.



# Refugee Housing

- Excluded from labor markets
- Overwhelmingly renting, driving up rents in Jordan/Lebanon
- Very limited shelter assistance
- High and increasing level of substandard and informal housing
- Permanent crisis situation looms
  - Example: Palestinian camps in Lebanon exist since the 1940s.

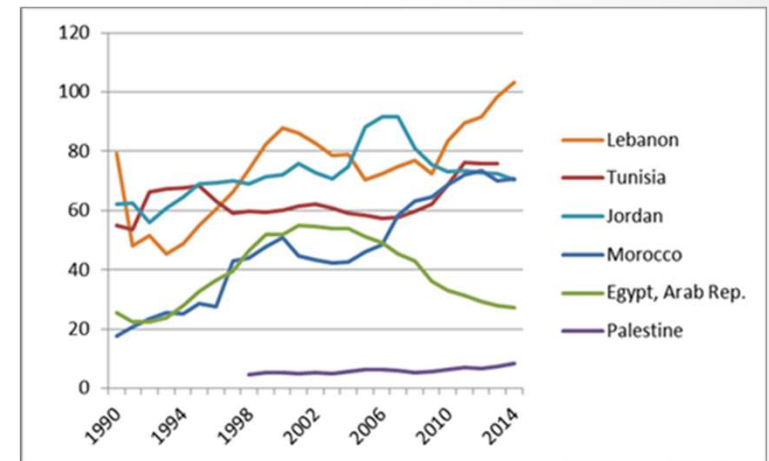
## Norwegian Refugee Council Surveys

Host country	Numbers of refugees <sup>(5)</sup> in host country	Shelter situation for refugees from Syria
 Lebanon	1,100,486	14% pay rent (an estimated 50 to 150 USD per month) in informal settlements. 14% pay rent (an estimated 100 to 200 USD per month) in unfinished buildings. 67% paying rent (an estimated 100 to 500 USD per month) in finished apartments. 35% receive some form of (humanitarian) shelter assistance. <sup>(6)</sup>
 Jordan	597,328	83.7% live outside of camps 16.3% live in camps 50% live in sub-standard shelters. 58% of household expenditure is on rent. Rental prices of Syrian refugees in four governorates have increased by 25% or more between 2012 and 2013. <sup>(7)</sup>

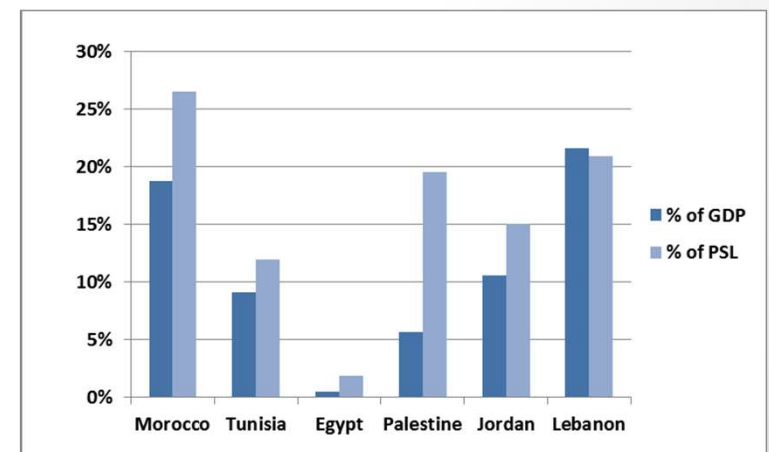
# Mortgage Finance

- Housing finance underdeveloped, beside Morocco and Lebanon
- Market dominated by commercial banks,
  - Incl. state housing banks (Maghreb, Lebanon).
  - Non- deposit taking financial institutions mostly in Egypt.
- Products:
  - Mostly conventional, long term, often fixed rate (required for subsidized segments – Morocco, Egypt) or quasi fixed rate,
  - Small, but progressing, Islamic finance market (Jordan, Egypt).
- Diversified, and sometimes large subsidy programs, both on the supply and the demand sides (Egypt, Lebanon, Morocco).

**Private Sector Credit Trend**

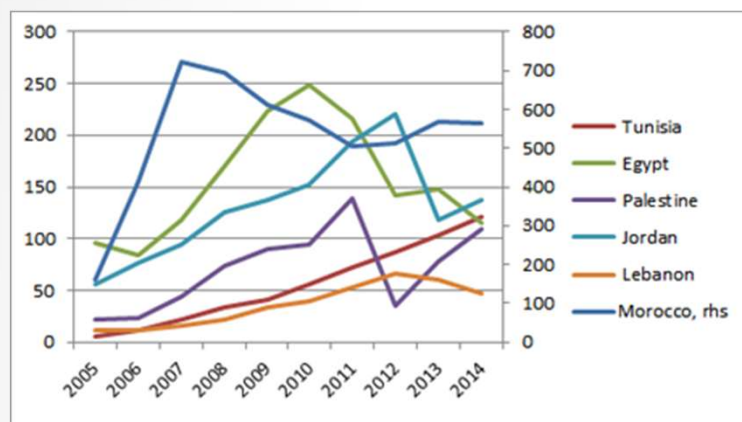


**Mortgage Market Size, 2014**

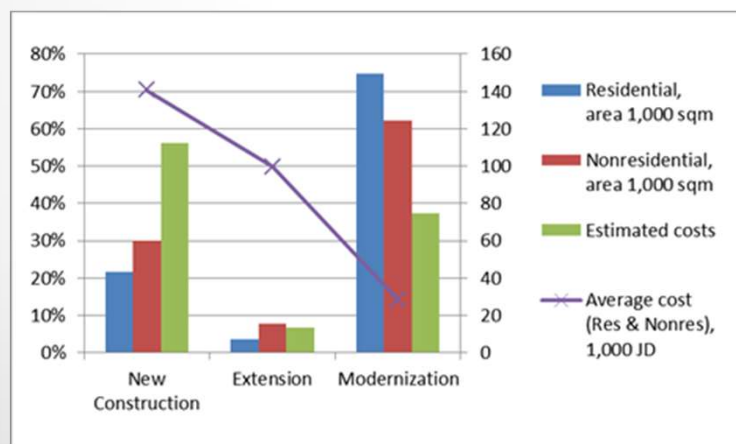


# Non-Mortgage Housing Lending

**MFI Portfolio Evolution, USD mln**



**Size of Extension, Modernization Markets Jordan**



## • Banks

- Majority has products for existing customer base
- No active market penetration policy
  - An exception: Tunisia large offer of unsecured housing renovation loans (but often a front for consumer loans)

## • MFIs

- Organic growth segment, mostly with existing customers,
- Partly very short maturities,
  - Pricing often increases with maturity.
- Often lack of suitable investment projects,
- Lending ceilings.

# Egypt Field Visit Results



**Cairo – the city of unfinished housing (LSE)**

**New town housing development**





# Egypt Housing Market

- Large and growing deficit
  - Quantitative (200,000 new units at the pre-revolution peak, vs est. yearly new needs of 300,000 units + reduction of 1.2 million deficit)
  - And qualitative (in Cairo, vast dilapidated stock + numerous multistory buildings illegally built since the 2011 revolution)
- Strong government intervention to address the deficit:
  - 2005-2011 National Housing program: 500,000 units
  - 2013 Social Housing Program: 1,000,000 units for low-income households over 6 years .
  - 2016: presidential instruction to speed up the delivery (656,000 units until mid 2018)
- Urban development policy
  - Satellite “desert” towns , a failed approach (insufficient jobs, services and transportation, increased congestion in Cairo, high vacancy rate- 3.4 millions units in 2006 in urban areas)
  - “New towns” policy. Now land provided by the government for low income housing
  - New Urban Communities Authority (NUCA), a land and housing developer entrusted with the power of formalizing unregistered properties
- Production:
  - Public sector (Governorates, line ministries, NUCA), growing role of private developers & builders (some large ones), in particular through PPP, self construction
  - Budget funding through the Social Housing Fund, subsidies to developers discontinued
- Rental sector:
  - Progressive phasing out of the rent control,
  - Large informal rental sector.

# Egypt Housing Finance Market

- Recent mortgage market
  - Established in the early 2000s, starting with the 2001 Real Estate Finance law;
  - 2015 ca 0.3% GDP - decreased since 2011.
- 2 types of players
  - Banks (EGP 4.5 bln), very liquid ( L2D ratio <50%)
  - 10 Mortgage Finance Companies (EGP 2.7 bln), non-deposit taking. Main ones owned by developers (Tamweel, Tayser), banks (Egyptian Mortgage Finance, AL Ahly, EHFC) or government entities (Tameer, the largest one)
- Good regulation / supervision ( CBE & EFSA)
- Credit risk tools: credit bureaus, post-dated checks (more efficient than mortgage enforcement). A recent, innovative development: credit default insurance offered by 2 insurance companies (not social target)
- Main development obstacles:
  - Gaps and weaknesses of the Property registration system, legacy of unclearly titled properties – at least transaction cost reduced to a nominal level in 2006
  - Lack of long term funding – a positive step: second tier refinancer EMRC since 2006, but still small (7% of the market) given the cost of funds from the bond market
  - High interest rates: 13% to 17%, generally adjustable (COFI), fixed for subsidized loans

# Egypt Housing Finance Market, ctd

- Products:
  - Conventional mortgages, 5 to 15 years,
  - Some Islamic Finance ( e.g. Amlak),
  - Unsecured consumer loans used for housing,
  - Still large installment sales by developers (5-10 years, 5%-7%). Claims bought by MFCs, with an EMRC refinancing possibility,
  - Micro-finance prohibited from lending for non-business purposes.
- Credit linked subsidies programs:
  - Affordable Housing Program– progressively replacing developers' subsidization since 2009. Theoretically reaches out down to the third income decile,
  - CBE 2014 stimulus initiative: EGP 20 bln through deeply subsidized lending to banks – 3.5% and 4.5%), to on-lend to households at 7%,8%, and recently 10.5% (unified management structure for both programs),
  - Current demand side subsidy structure:

Income limit (EGP /mo)	2,300 (individual) - 3,000 (\$ 380)/ households	5,000 (\$630)	15,000 (\$1,900) – 20,000 (\$ 2,500) / household**
Price limit - EGP	150,000*	500,000	950,000
CBE lending rate	7%	8%	10.5%
Upfront subsidy EGP	15,000	-	-



# Lebanon Field Visit Results



Beirut urban housing

Bekaa valley town housing



# Lebanon Housing Market

- High land cost push apartment prices out of reach
    - Coastal areas >>30% land cost share, no Greater Beirut Council
    - Constraints: planning, land ownership, speculation, expat demand
  - Smaller apartments become gradually available
    - Recent sales crisis forced developers to offer smaller units in the 100 sqm range, down from 150-200sqm, but almost no supply in the 50-80 sqm range
    - Constraints: no systematic low-cost approach, cultural standards.
  - Rental market largely informal
    - >80% of refugee housing in informal rental, else unfinished/squatting,
    - Constraints: no public/non-profit investors, taxation, eviction issues.
  - Significant stock investment, maintenance deficit
    - Condominiums lack co-ordination of owners, rental buildings under-maintained,
    - Regularization and safety issues in informal settlements,
    - Constraints: under the radar of policy makers, isolated NGO projects.
- No co-ordinated housing policy framework, orphaned legacy institutions (Banque de l'Habitat), housing essentially left to the market.

# Lebanon Housing Finance Market

## Mortgages

- Deeply subsidized lending conditions, two main brackets:
  - BdL 'middle-income' program up to USD 500K leads to costs of funds of ca 2.5% in LBP. 1% refinancing provided over entire life of loan (60%).
  - IPH 'low-income' program up to USD 180K, PO (banks) with serial amortization followed by IO (IPH), bank PO is eligible to BdL refinancing.→ Constraints: mis-targeted subsidies, much of which accrue to banks. (mortgage rates are currently 5.4% while the 12 month T-bill rate is 5.2%).
- At the same time very rigid underwriting
  - BdL increased the minimum downpayment in 2015 to 25%,
  - Bank modernization loans usually require mortgages.→ Constraints: central bank focus on stability, no low-income access policy.

## Non-mortgage housing loans

- MFIs with small, but increasing, short-term portfolio
  - Internal modernizations up to 5-7K USD/2-3 yrs,
  - Larger modernizations/extension up to 13K USD (Vittas 'Housing Plus'), 5 yrs.
  - So far limited rural, informal settlement coverage (HfH plans for camps).→ Constraints: bankable investments (e.g. extensions mainly rural), legal (and personal) safety in informal settlements.



# Morocco Field Visit Results



**FOGARIM housing in Taza**

**Rural progressive housing near Marrakesh**



# Morocco Housing Market

- Successful low-cost housing model with tendencies of oversupply
  - Tax incentives and lending programs have created thriving low-cost housing developer industry, currently rising vacancies in mid-sized towns,
  - Successful transformation of informal settlements, yet lowest cost housing provided only by one large developer.
  - Constraints: limited diversity of designs under inflexible cost constraints, land market in major cities (still significant demand overhang).
- Rental housing/leasing remains dysfunctional
  - Legacy of rent controls and impossibility to evict,
  - Leasing programs for unsold developer inventory?
  - Constraints: equity investors (institutions & private), taxation, legal issues.
- Significant extension and improvement activity
  - Rural extensions are piggy bank of residents and expats, mostly equity financed.
  - Significant home improvement market.
  - Constraints: under the radar of policy makers.

Developed housing policy framework with some gaps.

# Morocco Housing Finance Market

## Mortgages

- Lending at elevated interest rate risk levels
  - 25 year MAD without long-term funding, 0% sight deposit rate by regulation, 1% prepayment fees.
  - Constraints: mismatch and prepayment regulation, joint issuer smaller banks
- Comprehensive public credit insurance reaches limits
  - 70% pari passu insurance funds for 'social housing' (Fogarim for irregular income, non-salaried, Fogaloge for salaried)
  - Successful pump-priming in the past 10 years, but with decelerating prices, vacancies and rising strategic defaults, banks are tightening equity standards.
  - Constraints: Fogarim - banks have not developed microfinance techniques, programs do not address the equity gap.

## Non-mortgage housing loans

- MFIs with increasing, short-term portfolio, some bank portfolio
  - MFI with ca 20% in housing for plots, extensions, repairs, low default rates.
  - Banks do offer but do not systematically market NMHLs.
  - Constraints: MFI maximum lending limits.