

# A Diagnostic Review of the Infrastructure, Housing and Built Environment Financing in Nigeria: Successes Achieved, Challenges and the Way Forward



*Presentation by:*

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# Agenda

## Introduction

### Key Questions:

- **Housing Industry Overview**
- **Infrastructure & Housing Financing Ecosystem in Nigeria**
- **Drivers of Housing Development in Nigeria?**
- **Financing Opportunities**
- **Challenges**
- **Initiatives & Successes Achieved**

## Closing the Housing & Infrastructure Gap in Nigeria



InfraCredit is a specialised financial guarantor established in 2017 by the Nigeria Sovereign Investment Authority in collaboration with GuarantCo to provide guarantees to enhance the credit quality of local currency debt instruments issued to finance eligible infrastructure related assets in Nigeria. InfraCredit's Anti-Bribery Management System is certified as ISO 37001 compliant.

For more information go to: <http://www.infracredit.ng/>



## Credit Rating

**Agusto**

**AAA** (NG)  
June 2023

**GCR**

**AAA** (NG)  
June 2023

CERTIFICATION



## Capital Providers

SOVEREIGN WEALTH FUND & DFIs



PRIVATE INSTITUTIONAL INVESTORS



## Capital

**US\$209m**  
Total Capital

**Core Capital**

**US\$ 113 Million** (NGN EQUIVALENT)

**Subordinated Capital**

**US\$ 71 Million** (NGN EQUIVALENT)

**Callable Capital**

**US\$ 25 Million** (NGN EQUIVALENT)



## Eligibility Criteria

- › Naira Denominated Debt Issue
- › Eligible Infrastructure Activity
- › Debt Tenor of up to 20 years
- › Brownfield Asset
- › Acceptable Credit Profile
- › Pension (PENCOM) Compliant
- › Minimum BBB- Credit Rating
- › Adequate Security Package
- › Environmental & Social Standards

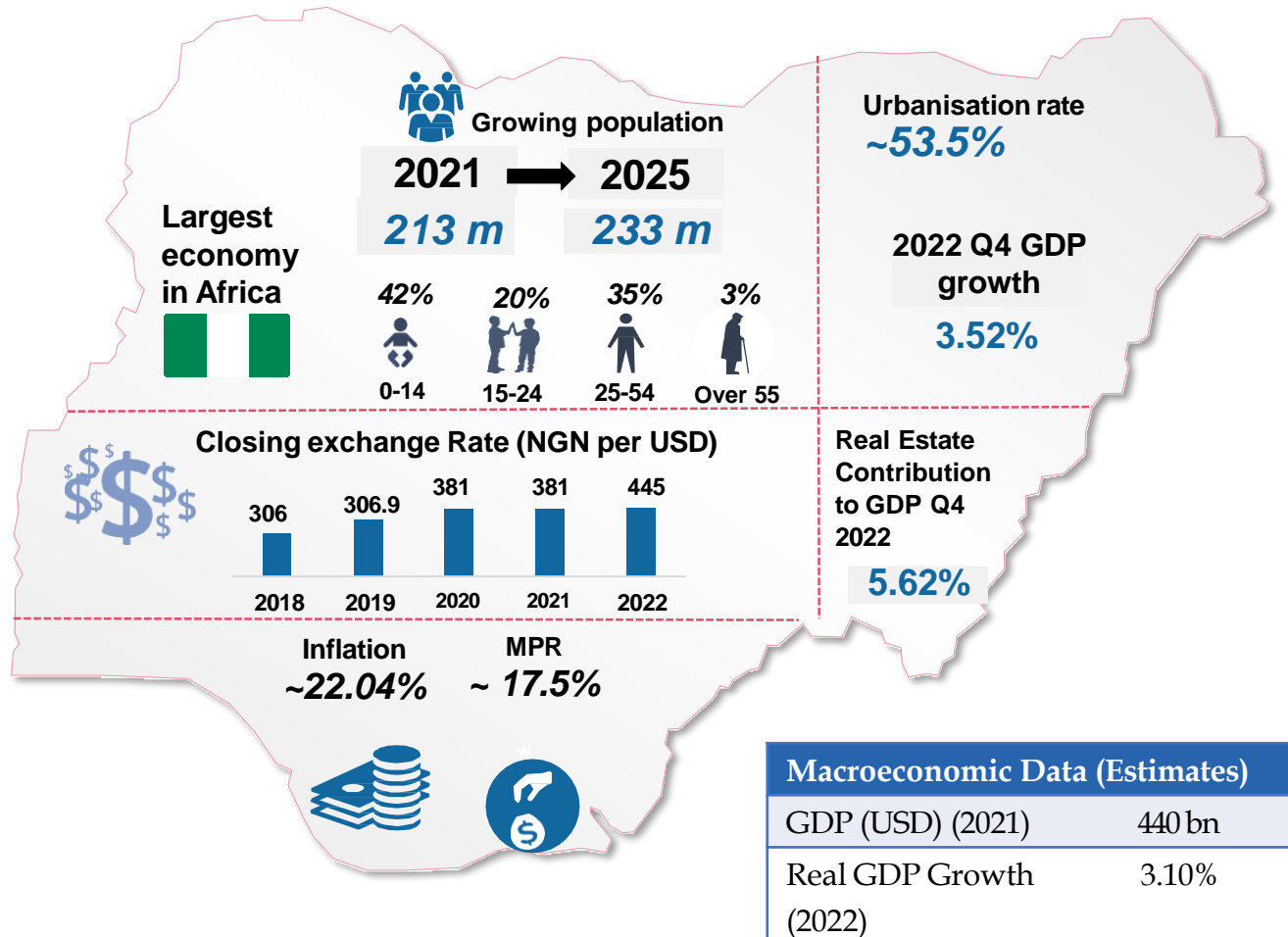


## Development Partners



## Macroeconomic Overview of Nigeria

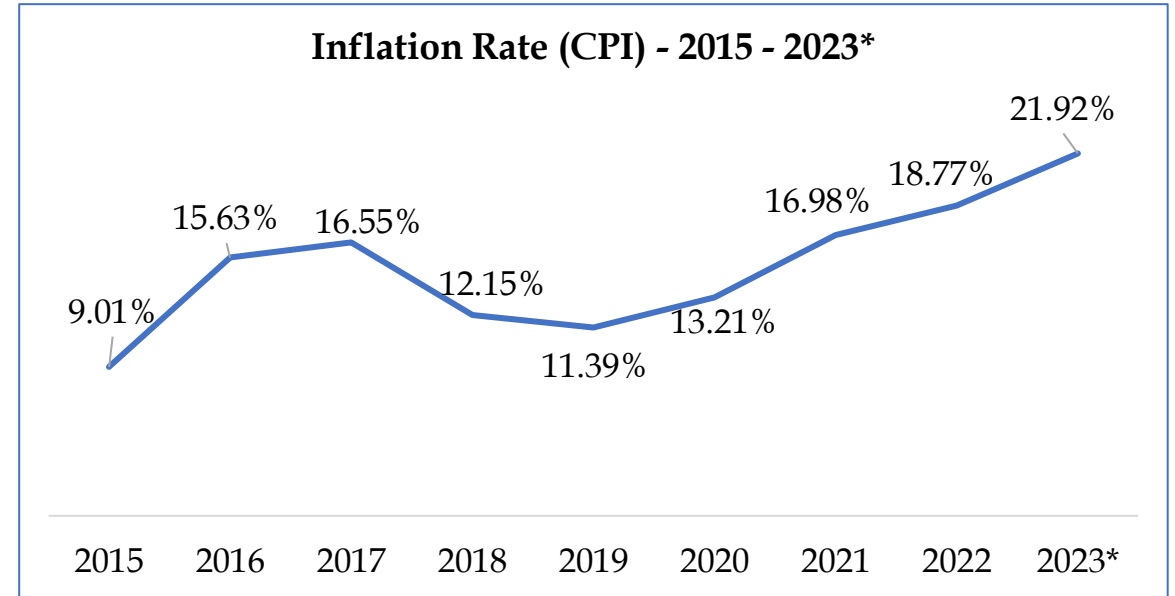
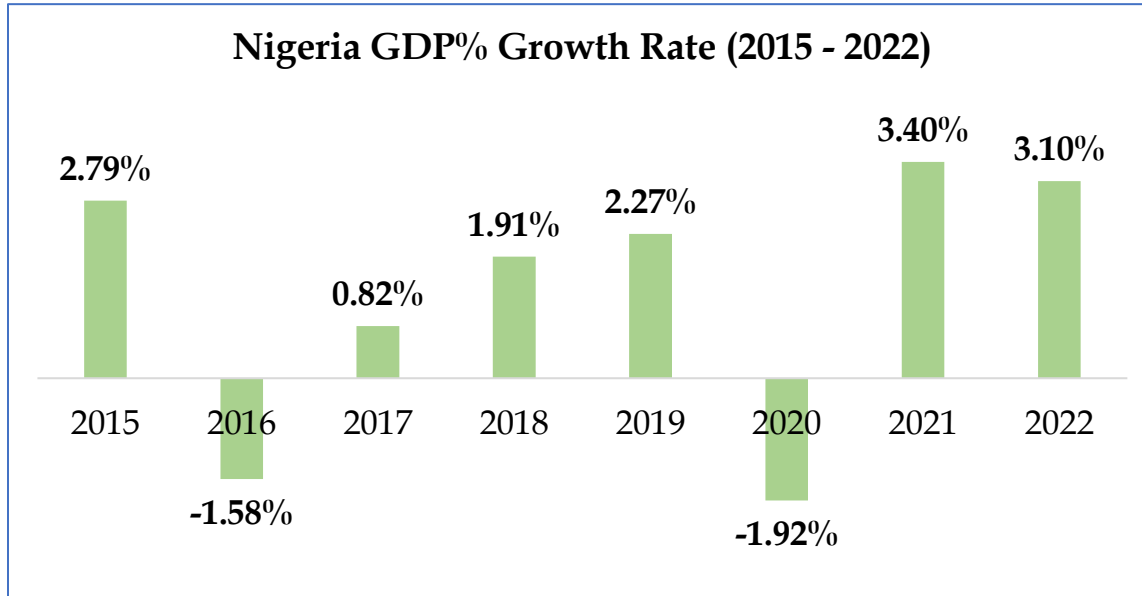
Nigeria is the largest economy in Sub-Saharan Africa, its rapidly growing population is expected to drive growth in the housing sector



- Nigeria's population is forecast to grow at 2.6% per annum. As population growth rate increases, there is a strain on housing demand and increased need for affordable housing
- Rapid urbanisation is placing huge demands on the retail sector, infrastructure, energy sources, services, job creation, climate and environment
- Nigeria's young population and growing workforce is expected to drive demand for affordable housing especially for new/first time home-owners

## Macroeconomic Overview of Nigeria

Although the Nigerian economy presents positive GDP growth, it is plagued by high inflation and increasing MPR rates



\* 2023 figure represents 3-month average inflation rate

- The Nigerian economy has fully recovered from the pandemic-induced recession – its GDP growth rate in 2022 was 3.10%
- Despite the improved GDP growth rate in the economy, the nation's inflation rate has been increasing since January 2022
- Nigeria's present Monetary Policy Rate (MPR) stands at 18% - increased 2 times this year alone. The increasing MPR directly impacts mortgage interest rates
- The Naira continues to depreciate with official rate moving from 306.9/\$ in 2019 to 460.53/\$ in April 2023

# Today, I will present my view on Nigeria's infrastructure and housing industry via the following pertinent questions

- 1 What is the current state of Nigeria's infrastructure and housing industry?
- 2 What is the current and future demand for housing in Nigeria?
- 3 What are the drivers of housing development in Nigeria?
- 4 What are the existing financing opportunities for infrastructure and housing financing in Nigeria?
- 5 What are challenges impacting the provision of housing in Nigeria?
- 6 What are the key initiatives that have been implemented in the sector?
- 7 What are the successes that have been recorded in the housing sector?



What is the current state of the Nigerian housing and infrastructure industry?

**The Nigerian Infrastructure Market requires long term capital that can be allocated into bankable infrastructure assets in a sustainable manner**

**\$100 Billion**



Annual Funding required to **bridge infrastructure** deficit (next 30 years)

**< 2%**



limited long dated bonds issued to finance infrastructure assets

**₦32 Trillion**

**Total Par Value** Outstanding in Nigerian Debt Capital Markets as at October 2022  
**₦9.7 Trillion** in April 2019

The Nigerian infrastructure market has a growing supply of capital from pension funds, and limited investment instruments to safely channel long term funds towards infrastructure.

This demands the creation of a funding tool that can facilitate the efficient allocation of long-term capital into bankable infrastructure assets in a sustainable manner.

**₦19 Trillion**



Forecast of the nation's **Pension Assets** to double over the next three years

**₦2 Trillion**



Estimated **Minimum Potential Pension Funds Investable** in Eligible Infrastructure Bonds

**30 year**

**Average Contractual Maturity** of Pension Funds & Insurance liabilities with limited assets of matching duration

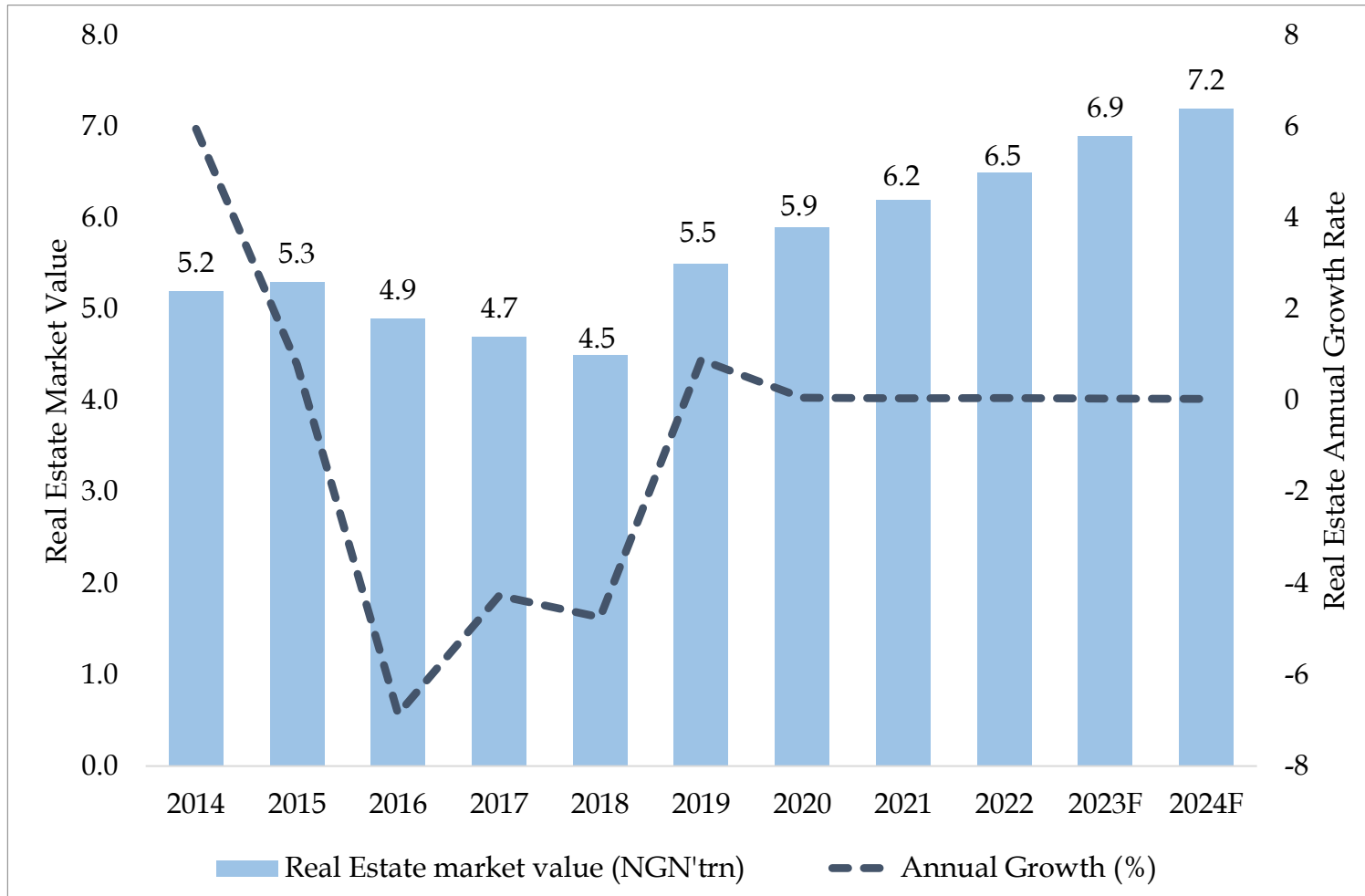
**₦15 Trillion**



**Pension Fund Assets** today, April 2023 from N47 billion in 2004 to its current level

**What is the current state of the Nigerian housing and infrastructure industry?**

**Nigeria's real estate market was estimated to be worth about NGN5.9 trillion in 2020 and is projected to expand by about 60% to reach NGN7.2 trillion by 2024**

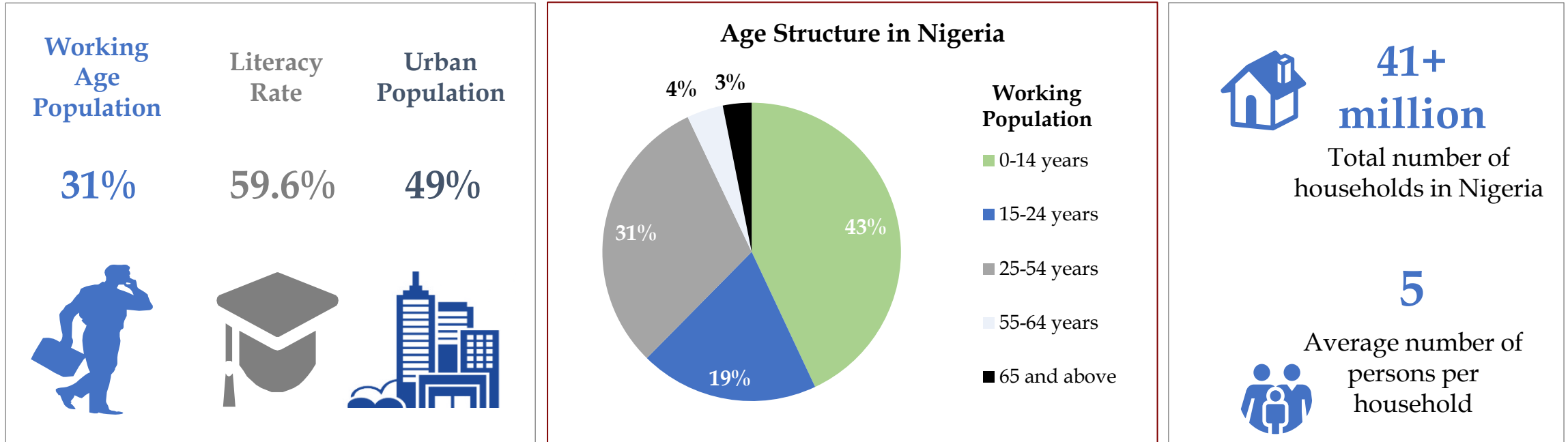


- In 2022, the real estate sector constituted 5.4% of Nigeria's total GDP
- The performance of the real estate sector is closely interlinked with the overall performance of the domestic market and as income shrunk following the recession in 2016, the performance of the real estate market dipped sharply



What is the current state of the Nigerian housing industry?

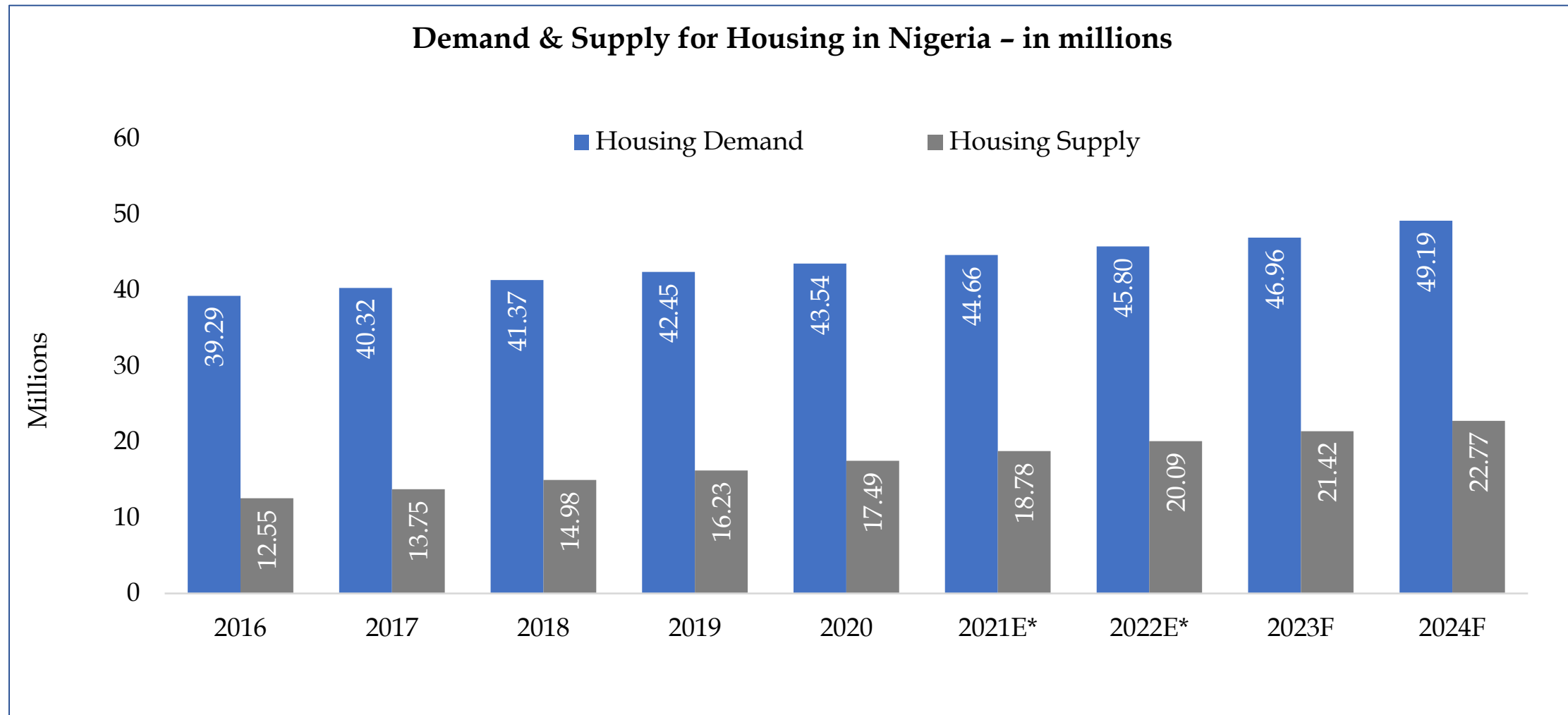
In addition, Nigeria possesses some fundamentals for a vibrant real estate market such as a high average household number, increasing urban population and a young working population



- Nigeria's population is approximately **213 million** and accounts for over **47%** of West-Africa's population and 2.6% of global population
- The country's population is expected to reach 233 million by 2025 based on current growth rate – 2.6%
- Likewise, the population will remain young with a median age of 18
- By 2025, more persons (51% of the population) are expected to live in urban centres vis-à-vis rural areas. This is likely to put more pressure on existing infrastructure in urban centres and create demand for more housing projects in urban areas to cater to the rising population in cities

What is the current and future demand for housing in Nigeria?

As at 2022, a national housing deficit estimated at between 25 to 28 million units currently exists, with most of the urban population living in slums



Source: Euromonitor, Centre for Affordable Housing, PwC Analysis

\*Actual demand data not available

## What are the drivers of housing development in Nigeria?

Key drivers for housing in Nigeria include the growing population, government policies and private sector investment

### Population



- According to the United Nations, Nigeria's population has grown from 122 million in 2000 to 213 million in 2022.
- Rural-urban migration has also been on the rise. In 2022, urban population was 53.5%.

### Government policy



- Various policies initiated by the Federal Government have marginally contributed to the growth of the real estate and housing sector in Nigeria.

### Private sector investment



- The housing sector in Nigeria is mainly private-sector led.
- However, private sector players are plagued with challenges such as inadequacy of building materials, problem of indigenous landowners, inadequate professional resources, inaccessibility to funds, etc.

### Access to finance

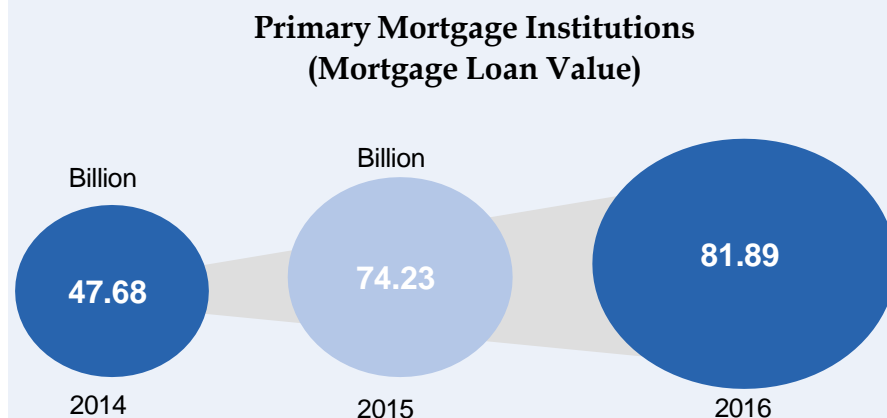


- Initiatives such as the Federal Mortgage Bank of Nigeria (FMBN)'s National Housing Fund etc, have improved access to mortgage financing
- Increased participation by Development Finance Institutions have also increased access to finance in the sector

## What are the financing opportunities that exist for infrastructure and housing financing in Nigeria? PMIs, Real Estate Investment Trusts and Development Finance Institutions are the three major sources of housing infrastructure financing in Nigeria (1/2)

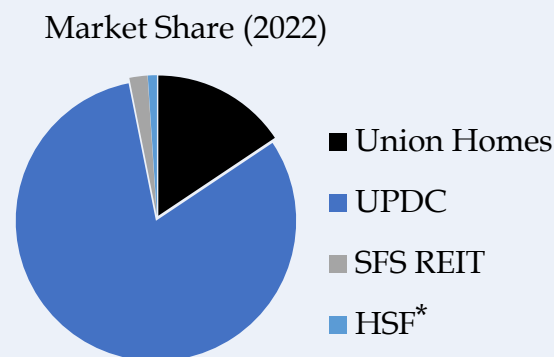
### Primary Mortgage Institutions

- Primary Mortgage Institutions continue to be the major home financing/lending institution in Nigeria. There are currently 34 licensed Primary Mortgage Institutions in Nigeria.



### Real Estate Investment Trusts (REITs)

- Nigeria currently has four (4) Real Estate Investment Trusts (REIT) with a Net Asset Value and Revenue of NGN38.6 billion and NGN2.78 billion respectively.



- REITs are making deliberate strides towards diversifying their portfolios from residential properties.

\* The Housing Solution Fund is yet to commence operations as it just recently obtained its SEC approval to operate as a REIT

## What are the financing opportunities that exist for infrastructure and housing financing in Nigeria? PMIs, Real Estate Investment Trusts and Development Finance Institutions are the three major sources of housing infrastructure financing in Nigeria (2/2)

### Specialised Financial Institutions (SFIs)

- SFIs are financial institutions established by specific laws to serve a specific type of economic activity, under the resolutions of their establishment.
- SFIs such as InfraCredit provide local currency guarantees to mobilise private institutional investments into the housing sector while NMRC issues bonds to refinance seasoned mortgages in the books of participating mortgage lenders



### Development Finance Institutions (DFIs)

- DFIs use blended finance instruments, combining concessional funding alongside commercial funding to deploy capital to projects that would otherwise not be able to attract commercial funding for any reason but have high transformative impact.
- DFIs also use blended instruments to crowd-source private sector financing.



## What are the challenges inhibiting supply and availability of houses in Nigeria?

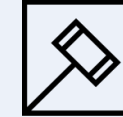
The housing sector has been plagued with several challenges that has hampered growth and development

### Building Materials



- Availability of building materials
- Relative high cost of building materials due to FX exposure
- No standardization in the quality of materials used for construction

### Land Administration



- Tedious land administration, titling and ownership transfer challenges
- Limitations of the Land use Act
- High cost of land acquisition and securing titles

### Monitoring Framework



Poor:

- Implementation of housing policies
- Monitoring of adherence to defined building codes and standards

### Infrastructure and Housing



Poor:

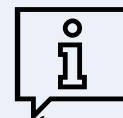
- Sewerage systems and electricity lines
- Road network
- Waste management

### Financing Challenges



- High interest rate on the back of a high MPR (Monetary Policy Rate)
- Illiquid real estate market
- Limited access to mortgage
- Limited funding for developers

### Data Management



- Lack of clear data on the housing sector for investment purposes

### Government Regulations



Limitations of:

- Existing building codes
- Government policies
- Housing regulations

### Unstructured Market



- Highly fragmented with many players and inadequate supervision by government agencies
- No proper coordination between relevant agencies

### Dead capital







- Lack of public trust and tenure security has made land dead capital with limited earning capabilities.
- These unrealised earnings (dead capital) is estimated to be in excess of US\$300 billion (PwC)



What are the key initiatives that have been implemented in the sector?

## To stimulate the sector, some key initiatives have been implemented by the Federal Government

Initiatives	Description	Key objectives
 <p>Retirement Savings Account (RSA) Scheme for Payment of Equity Contribution for Residential Mortgage</p>	<p>The National Pension Commission (PENCOM) Guidelines was issued in 2022 which allows RSA holders to use up to 25% of their RSA balance towards the payment of equity for residential mortgages</p>	<p>Improve the standard of living of RSA holders under the Contributory Pension Scheme (CPS) by facilitating their ownership of residential homes</p>
 <p>Nigeria Mortgage Refinance Company</p>	<p>NMRC is a private sector-driven mortgage liquidity facility which was set up in 2013 to develop the primary and secondary mortgage markets by refinancing seasoned mortgages by participating mortgage lenders</p>	<p>Promote the availability as well as the affordability of good housing to Nigerians by providing increased liquidity in the mortgage market through eligible mortgage lenders in Nigeria</p>
 <p>FMBN National Housing Fund (NHF) Scheme</p>	<p>NHF is a Federal Government scheme, which provides Nigerians (in paid employment) above the age of 21 years access concessional mortgage loans subsidised by the FMBN</p>	<p>Construct 1 million houses annually to augment infrastructural development in the sector</p>
 <p>Family Homes Funds (FHF)</p>	<p>FHF was set up in 2017 to provide affordable homes for low-income individuals in Nigeria. It is a social housing initiative promoted by the Federal Government of Nigeria as part of its Social Intervention Programme</p>	<p>Support the development of up to 500,000 homes targeted at people on low income over the next 5 years.</p>

## What are the successes that have been recorded in the housing sector?

Over the years, some successes have been achieved in the housing sector (1/2)

### Improved Access to Finance



- In 2022, **Shelter Afrique** successfully completed its debut NGN46billion Series 1 fixed rate bond issuance in Nigeria (under its NGN200billion bond issuance programme) to fund eligible tier 1 real estate developers and mortgage lenders to improve housing development.
- Since inception, **NMRC** has issued NGN29billion in bonds in the domestic debt capital markets and has deployed same amount to refinance the mortgage portfolio of eligible mortgage lenders
- **FMBN through the NHF** has lowered the required equity contribution (to 10%), and provides up to 30-year affordable mortgage loans through accredited mortgage lenders for on-lending to eligible borrowers at 6%



### Housing Affordability



- **Shelter Afrique's naira bond issuance** will be deployed towards supporting eligible housing developers to enable them finance construction whilst adopting innovative technologies to reduce construction time and costs
- FHF has commenced its **Help to Own (HTO)** scheme which is targeted at first time home buyers who can provide an equity contribution of up to 10% of the property price. The HTO scheme offers a low-cost, deferred equity loan of up to 40% of the home cost, halving the mortgage repayment
- According to **FMBN**, since inception, a total of NGN128billion has been disbursed to over 23,000 contributors under the NHF scheme whilst a total of NGN145 billion was disbursed for the construction of over 34,000 affordable housing units in Nigeria



## What are the successes that have been recorded in the housing sector?

### Over the years, some successes have been achieved in the housing sector (2/2)

#### Provision of Green Buildings



- Buildings represent 39% of global GHG emissions therefore reducing carbon emissions in buildings will be critical to achieving net zero
- The Green Building Council of Nigeria (GBCN) uses the Green Star SA rating tool (Green Star SA-Nigeria) to certify green buildings. The NMRC recently partnered with the IFC to promote green buildings in Nigeria
- Alpha Mead Development Company (AMDC), an EDGE pioneer housing developer in Nigeria, reported an energy saving of 47%, water savings of 32%, and 50% savings on the embedded energy in materials during construction in its greenhouse estate
- The provision of green buildings that generate their own electrical power reduces the dependence on the country's power generation source



#### Job Creation








- So far, FHF has supported the construction of 8,146 completed homes and created over 84,478 jobs under its other programmes
- FHF's Help to Own Scheme which is backed by the African Development Bank (AfDB) is projected to support at least 3,750 new mortgages which will result in the creation of approximately 9,375 direct jobs and impacting at least 18,750 beneficiaries.



## Despite the successes achieved, a lot still needs to be done to close the infrastructure and housing gap in Nigeria

### Levers

<b>Access to finance</b> 	➤	<b>Description</b> <ul style="list-style-type: none"> <li>FMBN should increase the disbursement of mortgage loans under its NHF scheme</li> <li>Alternative financing from DFIs and other investment entities can address investment gap and housing infrastructural deficit in Nigeria</li> <li>Explore innovative blended finance solutions</li> </ul>
<b>Land Administration</b> 	➤	<ul style="list-style-type: none"> <li>Digitisation of land administration for the purpose of land titling, registration, as well as adoption advance technologies can help increase transparency in land transactions &amp; services, improve data traceability, increase in the pace of land title delivery, etc.</li> </ul>
<b>Public, Private Partnership</b> 	➤	<ul style="list-style-type: none"> <li>PPPs, incentives (e.g., waivers, tax breaks and guarantees) and other viable financing models can reduce the deficit in affordable housing schemes</li> <li>State government partner with private investors to provide land for construction of affordable houses</li> </ul>
<b>Real Estate Market</b> 	➤	<ul style="list-style-type: none"> <li>Develop strategic alignment and partnerships with key industry players to broaden the Real estate market and increase the number of REITs</li> <li>Implementation of value chain financing models (demand and supply-side)</li> </ul>
<b>Dead Capital</b> 	➤	<ul style="list-style-type: none"> <li>Addressing the existing data gaps and easing asset transferability will enable citizens access capital or leverage their real estate assets</li> </ul>



# Thank You