

“A” For Affordable Housing, In Lagos State



Addressing the basic impediments; is Lagos State getting it right?

With urban population growing at an unmanageable rate, causing demand for services and infrastructure to far outstrip supply, majority in emerging market cities have no alternative but to live in slums. The slum population has hit the 1 billion mark and continues to grow. It is expected that this figure will double by 2030!¹. What makes access to affordable housing such a difficult and challenging problem to overcome in many emerging economies? Where some success has been recorded, it is noted that practical solutions addressing regulations, access to capital, and technology seem to be key to addressing this unwieldy challenge.

Why do we often come back to the subject of access to housing? Because housing is at the core of improving the lives of the poor and at the root of many other financial, social and environmental issues. Poor shelter means reduced access to clean water, sanitation, unreliable/unhealthy energy sources and low levels of financial security.

This edition of RE Insight takes a close look at the activities of the Lagos State Government (LASG) following the latest commitment of the State Governor to tackle the housing supply and affordability crisis in his State.

Nigeria's Housing Statistics

There are 10.7 million houses in Nigeria, 90% of these are self built, with little or no mortgage attachment, and 5% have formal title to property. The housing deficit in Nigeria is estimated at 14 million units. Bridging this gap will cost N49 trillion (\$326 billion), this assumes the cost of N3.5 million per unit. Home ownership in Nigeria is low; 85% of the urban population live in rented housing, spending 40% of their income on shelter. The built environment is dominated by informal housing as 80% of the urban population live in dense settlements with poor infrastructure. Existing formal supply is targeted at the high income earners priced well above over 92% of the population, contributing no more than 12% of demand.

If It Can Be Successfully Addressed in Lagos....

Lagos, Nigeria's economic hub and largest city is home to 12 million people (LASG say this figure is closer to 17 million). Lagos has been referred to as a city in crisis - grappling with significant infrastructure challenges in power, portable water as well as city transportation, alongside housing. Lagos accounts for one third of the housing shortfall in Nigeria.

There are more than 200 slums in Lagos, "ranging in size from clusters of shacks underneath highways to entire districts such as Ajegunle and Mushin"² (Gandy 2006) and communities on stilts along the lagoon. Over two-thirds of the population live in these densely populated informal settlements and more than 75% of these in one-room households.³ (Adelakun 2009), popularly known as "face me I face you", a phrase derived from the typical building layout, with an average density of 8-10 persons per room⁴. 60% of residents are tenants, paying between 50-70% of their income out as rent.⁵

Lagos State adopted the UN-backed Master Plan for Metropolitan Lagos (1980-2000), which called for amongst others, the provision of 1 million housing units for low income households, alongside a World Bank assisted Slum Upgrade Program. Unfortunately, the two-pronged approach met with little success. It is reported that forceful eviction of slum dwellers has been ineffective and have instead helped fuel the growth of new slums or/and the expansion of existing ones. In terms of housing delivery, the Lagos State Development and Property Corporation (LSDPC) since its establishment in 1972 as the sole agency responsible for housing development has delivered 22,400 units⁶, an average of 590 units per annum.

In the past 10 years, efforts have included the establishment of the Lagos Metropolitan Development and Governance Project, the Lagos Island Revitalisation Project (which led to substantial investment in infrastructure in and around downtown (the old CBD and Marina) Lagos and a Medium Term Sector Strategy for Housing whose ambitious vision is to achieve "a Lagos State where every citizen has access to quality housing that meets their needs". A cardinal requirement to achieve this, according to the strategy document is the work with the private sector through PPPs. Unfortunately, the structure and terms set by LASG spelt doom for the PPPs from the onset, delivering less than 5% of the projected 100,000 units.

So, What Is Different Now?

Availability of finance: The recently launched Lagos Cooperative Home Ownership Incentive Scheme (Lagos-CHOIS), in collaboration with the private sector addresses the supply side. It is expected to deliver 10,000 housing units over the

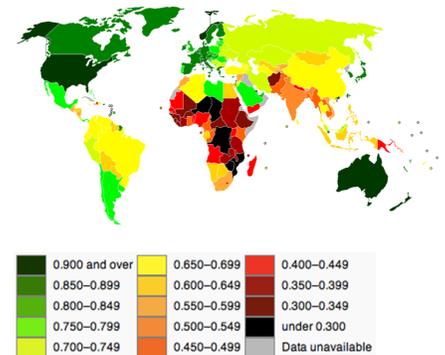


Figure 1: UN Human Development Index Values—0.50-0.75 indicate emerging status

Source:



Figure 2: "Jakande Flats" - in the period between 1979 and 1982 nearly 10,000 units of low income housing was delivered by LASG

Source: www.naija247news.com



Figure 3: Demolition Task Force at work in one of the many slums in Lagos

Source: www.saharareporters.com July 2012

next four years. The average sale price of a 2bed-room unit is N11.6million (US\$72,500). A minimum net monthly income of N70,000 (US\$440) is a prerequisite. While this price point excludes the low income earner, it will enable a large and often overlooked target group of young professionals, mid-level staff and lower management climb the property ladder.

This time, LASG sees itself as the catalyst, creating the right environment, providing commitment finance, standard building plans, working in partnership with private developers/investors, offering a few incentives and seeking a discounted return at the end rather than upfront payments requested in previous PPP initiatives.

Subsidised off-take finance is also being made available through the Lagos Home Ownership Mortgage Scheme (Lagos-HOMS). This initiative which has received initial funding from LASG is available to all qualifying first time buyers, from both the formal and informal sectors on a 10-20year tenor and a 20%-30% equity contribution is offered at a 6% interest rate.⁷

“What is required to solve the housing challenge in the State is a combination of building and enunciation of policies that will re-energise the housing sector, restore confidence of investors to partner with government and unleash the enterprise and potentials that are clearly inherent in the housing sector.” Mr. Babatunde Fashola, Executive Governor of Lagos State.

The availability of development and affordable off-take finance offers a glimmer of hope of a successful outcome. There are arguments that the mortgage finance product should be available for buyers of homes outside the CHOIS scheme. However, it is understood that this has been set up as a revolving scheme, making it highly unlikely.

Strategies that bring costs down:

a) *Land is expensive in Lagos*, it alone can make affordable housing unviable. LASG seem to understand this and now consider creative options in a way that makes sense for projects. With government as a land partner, it takes a position in which it receives payment in form of dividends aligned with cash-flows. It is also considering concessionary land allocations and developments in “new towns” where land is cheaper.

Government as partner also means that issues around titling are resolved rather quickly and buyers are guaranteed proper ownership documentation in record time!

b) *Alternative Technologies* has the potential to be an essential piece of bringing costs down. However, people generally seek traditional techniques of brick and mortar rather than technologies using say plastic. Currently LASG is building using conventional sandcrete blocks with mortar. However, there are indications that alternative construction techniques such as interlocking blocks (eliminating mortar) are being considered.

c) *Cross-subsidy* is built into the current model, with a mix of 1,2 and 3 bedroom apartments, with the affordable units making a loss (or less returns) and is subsidised by the lower middle income units. This is the basis of the mixed-income, mixed-type template being promoted by LASG.

Rental Housing

The medium term objective of the LASG must also facilitate the development of rental housing. The reality is that in spite of best efforts, many will still be unable to buy their home. Private building owners enjoy an absolute monopoly in the rental housing market with no competition between it and public investments, making the tenancy laws more difficult to enforce. Competition must be created in the rental space as it is starting to do in the build-to-sell space with CHOIS. Strategies for achieving this range from direct involvement in development or by providing similar concessionary mortgage financing to private developers to build affordable rental housing.⁸

The first round of LASG investment in housing supply is expected to deliver 3000 units by Q1, 2013. As stakeholders watch on, it will be interesting to see how the government and all parties involved deliver on their mandate. The success of these innovative strategies will hinge on and how these projects are managed and sustained over time including the ease at which loans are disbursed, hopefully in a transparent manner with minimum bureaucracy.

LASG, is to be commended for finally taking some steps in the right direction. It is an up hill task ahead, and the recent initiatives are tiny steps taken on a very long journey. Successful projects, continuous review and some flexibility in implementation, should all contribute to attracting domestic and international investors and spur increased activity in its housing market.

Finally, a government willing to address the issue of slums must tackle the key underlying factors which brought them into being in the first place. It needs to provide access to planned and titled land for the poor at terms they can afford as well as frantically encourage/promote the construction of mass housing.⁹ Successful implementation of this, in addition to other factors earlier mentioned would signify the beginning of the journey to solving the cities housing challenges.

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Figure 4: Three bedroom flats in a neighborhood on the outskirts of Lagos—part of the CHOIS portfolio



Figure 5: Quick-assembly affordable housing using steel shipping containers

Source: Container Architecture



Figure 6: “The Simple House” - New Zealand Government’s initiative to make affordable housing more accessible to first time buyers

Source: Telegraph Oct 2010