



Affordable housing is a global opportunity that is real and relevant

The horrifying statistics on housing are all too familiar now - one billion people, equivalent to one-sixth of the world's population live in slums and shanty towns without access to basic sanitation, potable water, limited structural integrity, in "houses" that cannot withstand the elements, amid garbage and vermin, with a lack of, or poor quality schools and medical facilities amongst a host of social and environmental challenges.

It is reported that urban slums are the fastest growing human habitat¹ and that by 2030, over 3 billion people will live in urban slums. All across emerging markets, huge numbers need safe, standard housing - 23million in India, 7million in Brazil², 1.5million in Egypt, 17million in Nigeria. Governments are well aware of this gap but are unable to build or provide subsidies for all that is needed. Yet, the governments still talk about the formal housing industry solving the shortage, putting aside the fact that majority of affordable housing is self-built and self funded. These majority are off the formal economic grid, have been ignored by the housing sector value chain which develops for the middle and upper classes, and also by financial institutions. The housing built represents decades of savings, building bit-by-bit as time and income permit, and in majority of the cases, the house represents the only tangible asset that the family will ever own³.

This edition of RE Insight addresses the role of social enterprise as a catalyst for delivering affordable housing across emerging markets.

The Bricks and Mortar Challenge

It is almost obvious that making good quality housing affordable for more, will have a profound effect on both the individual and the society at large. Yet, it seems like efforts at tackling the housing challenge from a social enterprise perspective is relatively non-existent, when compared against health-care or clean energy. Why is this so? In the report "The Beauty of Bricks and Mortar: Low-cost Housing as Foundation for Impact"⁴, several obvious reasons are proffered:

Housing is a different "kettle of fish". Housing projects require many different partners, often without a clear entrepreneur at the top. The finished product is not in view for months and sometimes for years, and subsidies are a usual prerequisite for it to be truly affordable. The truth is that impact investors often look for "cleaner" more straightforward opportunities, with quicker wins and an identifiable champion.

Housing is not trendy. The entire development

process is characterised by delays, legal and regulatory inconsistencies, loud often messy construction activities, and even less quaint as we try to make the housing unit more affordable. This is far from a new low cost medical device or agricultural equipment. Affordable housing is often in good old fashioned brick and mortar in not in a shiny technology.

Housing is slow. It is impossible to reach maximum numbers in little amounts of time. Housing is terribly out of line with scaling, and scaling rapidly. In the housing sector, both scale and impact mean very different things. The impact of providing a decent roof over a family is profound, but it does take time and projects are not likely to reach the numbers that are common for sectors such as agriculture and renewable energy.

Truly low cost housing cannot succeed in isolation. It requires support - partnerships with government and related agencies and subsidies. The social enterprise sector tends to shy away from what seems to be a financially unsustainable model. The reliance on public sector support and subsidies is even more profound in housing because it is capital intensive, and without extra incentives, it is much easier for investors and developers to move up-market. Still, affordable housing policies have to be built on financial models which make financial sense. Wholly government led initiatives have not delivered on sustainable solutions because allocating free housing to slum dwellers or others identified from the low income often results in the allottee renting or selling off and returning to the poor (or no) housing from where the came.

"The key is to increase the supply of housing in a manner that is in line with the preferences of the low income and poor, and their ability to pay". This is the only way to develop a sustainable market driven approach.

Affordable Housing Needs Patient Capital

There is a recognition for the huge unmet demand, but as seen in Nigeria, along with other emerging markets, there is also little willingness to be the first mover. Creating new categories of housing takes guts and creativity⁵ However, once these models have been developed and proven, a new cadre of developers (and even traditional developers) will play in this sub-sector. Demonstrating the attractiveness of low cost housing to developers is a necessary first step in getting

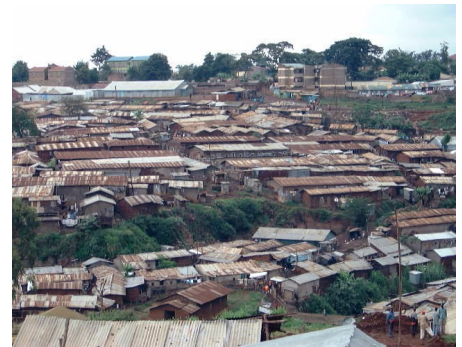


Figure 1: Kibera Slums in Nairobi, Kenya - housing Africa's largest slum population

Source: Affordable Housing in Africa. E. Essienyi, Aug 2012



Figure 2: Lagos famous floating slums—recently government has taken steps to demolish these settlements in an effort to rid the city of slum dwellings

Source: Affordable Housing in Africa. E. Essienyi, Aug 2012

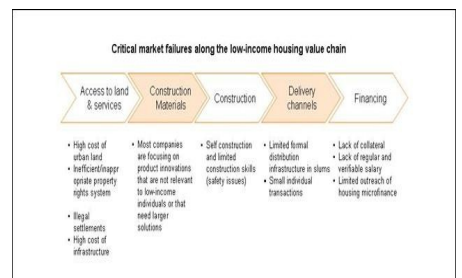


Figure 3: Transforming urban markets for the poor through collective entrepreneurship

Source: Global Urban Development Magazine Nov 2008

long-term buy-in.

Social Funds are a source of the “right” type of capital and they continue to invest in housing enterprises whose focus is the delivery of good quality affordable housing at a sustainable price point. There are already great outcomes in the geographies within which these Funds operate. However, these operators all agree that a collective effort in development and risk sharing is required to catalyze the supply of a new category of housing. It is also important that we continue to address the current market failures that low income families face around the world: “relatively small sized transactions, informal economy and a lack of distribution channels, how to think creatively beyond individual construction related products or low-technologies”⁶

Innovations and Opportunities

In the past decade national and international networks such as Slum Dwellers International (SDI) have joined forces with related networks sharing experience and expertise. Also, new financing schemes for home improvements and new homes are emerging, particularly in the housing microfinance space, alongside some advancement in low cost building technologies. All together, these initiatives only scratch the surface and serve a fraction of the population, and often limited to one sector only - public, private or *citizen⁷

Without doubt, no single sector can meet the challenge of providing housing with dignity for over a billion slum dwellers . The citizen sector organisations are often familiar with what the low-income people need and are able to change behaviours and mindsets. In Nigeria, with the support of the GEMS2 program, a study is currently being undertaken to assess amongst other things, what the urban low-income earner’s housing needs truly are. This sector is becoming more professional, guided by astute social entrepreneurs and change-makers. Businesses (or the private sector) on the other hand bring expertise in managing large projects, organising capital, product design and marketing. The public sector is necessary to lead efforts towards effective land tenure, infrastructure development, appropriate policy enactments and a conducive business environment.⁸

Conclusions

All indications suggest that low income urban households are the markets of the future. Other industries such as FMCGs have made an early start into this market. The low income urban housing market was recently estimated at US\$330billion.⁹ Housing is a fundamental human right in itself; a basis from which human and economic development impacts the health, security, income flow and self-esteem of poor families.¹⁰

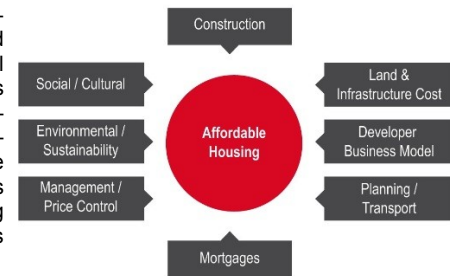
A two pronged approach is necessary across all sectors - investing in the supply side (and supporting the value chain that will result in cheaper building materials, enable cheaper and more efficient access to titled land lots, etc) and in the demand side through increasing access to affordable buyer finance.

The Impact Investing sector is being led by individuals and organisations that have a strong combination of enterprise and social competences and who have the capacity to bring down the traditional walls between business and citizens, entrepreneurs and government, researchers and pragmatic planners¹¹. The forging of strong bonds through alliances and innovative frameworks which put diverse stakeholders in close touch with each other as difficult and resource demanding as it is, is proving to be the most robust solution in addressing access for the low income household.

References

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Constraints on Supply of Affordable Housing



Source: Jones Lang LaSalle

Figure 4: Constraints on Supply of Affordable Housing

Source: Jones Lang LaSalle



Figure 5: Crinale, a South American developer is building 1200 units of affordable housing leveraging private investment funding

Source: www.nextbillion.net



Figure 6: South Africa’s first mass greening project—the equipping of 70,000 low income households with solar water heater systems

Source: www.standardbank.com