Overview of the Housing Industry and Housing Finance Sector in Uganda

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1.0 UGANDA'S HOUSING FINANCE MARKET - OVERVIEW

Uganda's housing finance sector has registered commendable growth rates and transformation during the last two decades. By the end of December 2010, the total mortgage portfolio was estimated at UGX 1.65 trillion or USD 660 million (4.8 percent of GDP), compared to UGX 771 billion (USD 308.4 million) in 2009 (3.3 percent of GDP) and UGX 32.4 billion (USD 12.9 million) in 2002 (0.3 percent of GDP).

Presently, there are four major types of mortgages issued (residential, commercial, land purchase, and construction finance to property developers), compared to only one (residential) in 2002.

Table 1: Type of Mortgages Issued (2009 and 2010 - UGX. billion)

Mortgage Type	Jan -2009	Dec-10
Residential mortgages	313.7	435.1
Commercial mortgages	174.2	165.0
Land purchase	27.5	32.6
Construction Finance to Property developers	141.3	271.9
Others	114.3	160.4
Total	**771.0**	**1,065.0**

Source: Bank of Uganda; 2011

Between January 2009 and December 2010, the largest increase in loans was to property developers (construction finance) at UGX 130.6 billion (Table 1). Residential mortgages also registered a substantial increase of UGX 124.1 billion during the same period. Commercial mortgages on the other hand registered negative growth, with a decrease of UGX 9.2 billion (Bank of Uganda; 2010).

By June 2011, there were nine out of twenty two commercial banks that offered mortgates, compared to one government owned institute and one commercial bank by 2002 (See Table 2).

Table 2: Banks providing Mortgage Finance in Uganda

No	Bank	Year stared providing mortgage finance
1.	Housing Finance Bank	Since the 1980s
2.	DFCU Bank	Since 2002
3.	Stanbic Bank	Since 2004
4.	Barclays Bank	Since 2004
5.	Equity Bank	Since 2004
6.	Standard Chartered Bank	Since 2004
7.	Centenary Bank	Since 2007
8.	Kenya Commercial Bank[1]	2011
9.	Bank of Africa	2011

Source: Compiled by Consultant from various sources

Five banks dominate the housing finance market, and by December 2009, the banks had a total mortgage portfolio of UGX 274 billion. The banks are;

(i) Housing Finance Bank

(ii) DFCU Bank

(iii) Stanbic Bank

(iv) Standard Chartered Bank and

(v) Barclays Bank

However, during that period, the banks' mortgage portfolio was just 5.9 percent of the value of their total assets (UGX 4,659 billion), indicating that the housing finance market plays a very small role in the overall banking sector.

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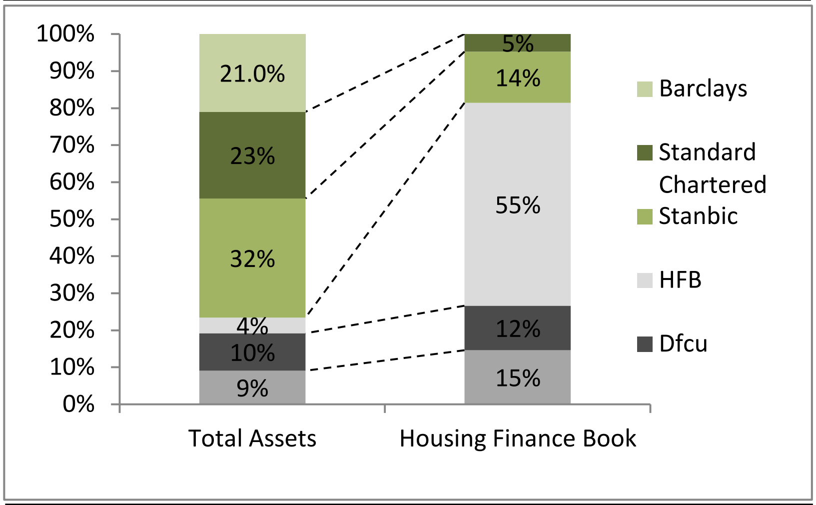
[1] Kenya Commercial Bank and Bank of Africa are the latest entrants in the market. In 2011, KCB Uganda, through S&L, its mortgage financing arm launched is mortgage portal, staking about $15 million, to, among others, address the increasing need for mortgage facilities in the country (allafrica.com; June 2011). Bank of Africa (BOA) too, has announced plans to venture into low cost mortgage financing to consolidate its presence in Uganda and the East Africa

Housing Finance Bank, which holds only 4 percent of banking sector assets; accounts for approximately 55 percent of the housing finance book value (See Fig. 1).

By December 2009, there were approximately 16,600 housing finance loans issued by the five major players in the market, and they literally catered for the high end of the market as discussed in the next section.

Fig. 1: Total assets versus housing finance book (2009)



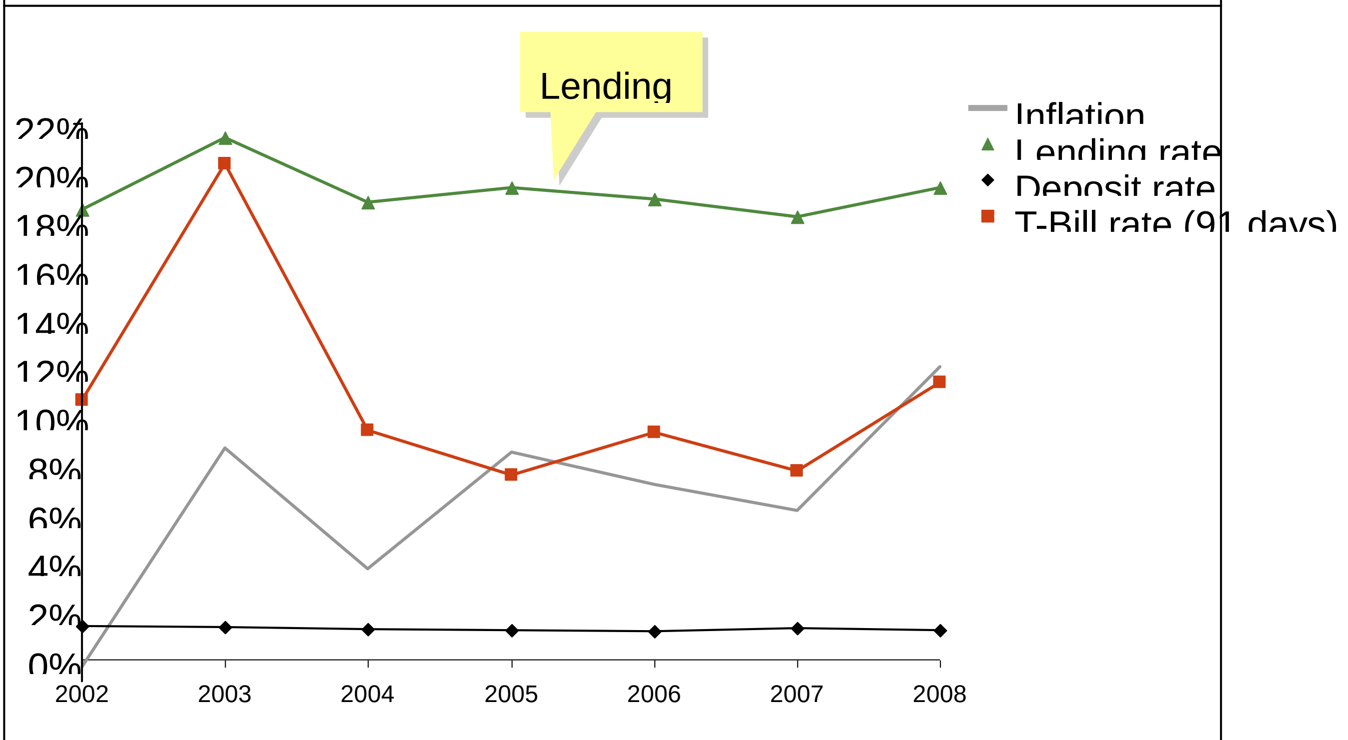
Source: Bank of Uganda; 2009 and Genesis Analytics; 2009

Some of the products offered by the five banks include: (i) house construction, (ii) house completion, (iii) home improvement, and (iv) purchasing of houses, among others.

Granting of loans is negotiable depending on the credit rating of the mortgagee and the quality and value of the houses to be built or purchased. All banks offer secured loans ranging from UGX 5 million to UGX 200 million, depending on the size the of the bank.

With regard to interest rates, from Fig. 2 below, it is clear that the rates charged by all the five banks are above 15 percent, and higher than the deposit, inflation and Treasury Bill rates.

Fig. 2: Lending Rates, Inflation Rates, Deposit Rates and T-Bill Rates



Source: Bank of Uganda, 2009 and Genesis Analytics; 2009

The high interest rates are attributed to the following;

i) The large and increasing size of government's fiscal deficit which allows commercial banks the option of investing in low-risk government securities rather than lend to the private sector. For example, there was an increase in the value of government securities held by banks in 2010, estimated at UGX 694.2 billion, compared to UGX 299.7 billion in 2009. The increase in government securities was in response to the pick-up in interest rates during 2010, which in turn followed increased government borrowing

ii) The perceived high risk of lending to the private sector. From the illustration above, it is clear that with the mortgage market offering only a small margin above shorter term low-risk rated government bonds and adequate supply of government paper there is little incentive to lend

iii) Lack of competition and dynamism among commercial banks since they are satisfied with serving stable and well positioned market segments

2.0 HOUSING DEMAND

Uganda has a population of approximately 31 million, and an annual population growth rate of 3.3 percent. A major concern however is that the population is increasingly becoming young and urbanised. In 2007 alone, the urban population grew at 13.5 percent, almost tripple the overall rate of 5 percent (Genesis Analytics; 2009).

Presently, the annual national housing requirements are estimated at 233,000 units with a housing deficit of about 560,000 units. 160,000 of this backlog is in urban areas with Kampala alone having a deficit of 100,000 units. Kampala's annual housing requirement is estimated at 22,000 units (Kalema W and Kayiira D; 2008).

If each house costs an average of $10,000 to build, the financing requirement for Kampala annually is $ 220 million. This figure is higher than the total amount that the local banking sector, as it exists today, is permitted to lend.

It is also a measure of the size of the opportunity available for real estate developers and mortgage lenders in Uganda. However, it is unlikely that a substantial portion of the population will be able to participate in the formal market given the low levels of income.

From Fig. 3 below, the following key facts can be deduced about Ugandan household income and access to housing finance/housing microfinance;

- Only 0.68 percent (out of 5.2 million) households have high enough incomes (above UGX 1 million) to access mortgage finance from commercial banks.
- 26.72 percent earn modestly (between UGX 200,000 and 1 million), and can only access housing microfinance loans from Micro Deposit Institutions (MDIs) and Micro Finance Institutions (MFIs)
- The income of 10.3 percent of the households is good enough to only allow access loans from Savings and Credit Cooperatives (SACCOS).
- 62.3 percent of the households do not have access to housing financial services.

Fig. 3: Households Access to Financial Services in Uganda

Monthly Income UShs	Total in range '000s	Households Percentage	Financial services
1 million & above	35.621	0.68%	Access to mortgage loans from commercial banks
200,000 – 1 million	1,014.8	19.52%	Access to housing micro-finance loans from MDIs
150,000 – 200,000	374.4	7.2%	Access to loans from MFIs and SACCOS
100,000 – 150,000	535.6	10.3%	Access to loans from SACCOS
50,000 – 100,000	1,118	21.5%	No Access
0 – 50,000	2,121.6	40.8%	No Access

Source: Kalema W and Kayiira D; 2008

3.0 HOUSING SUPPLY

From the above overview it is clear that very few Ugandans rely on mortgage financing to purchase their homes. They are deterred by the high required down payment (at least 30 percent of the property value), high interest rates, and the high prices for the few well-built houses in planned neighbourhoods that mortgage providers prefer (See Table 3 below).

Table 3: Well Established Real Estate Developers in the Kampala Area

<table>
<tr><th>Developer</th><th>Houses built to date & sold</th><th>Types of houses offered</th><th>Price ranges (UShs)</th><th>Population targeted</th></tr>
<tr><td>Pearl Estates</td><td>88 Apartments built and sold</td><td>2 – 3 bedroom apartments</td><td>167 – 200m</td><td rowspan="4">0.05%</td></tr>
<tr><td>Nationwide Properties</td><td>1,336 houses built by end of 2010</td><td>3 – 4 bedroom bungalows</td><td>148 – 289m</td></tr>
<tr><td>Blue Ocean Group</td><td>53 houses built and sold</td><td>2 – 4 bedroom single houses</td><td>126 – 470m</td></tr>
<tr><td>Kensington Group</td><td>150 houses built and sold</td><td>2 – 5 bedroom apartments</td><td>200 – 530m</td></tr>
<tr><td>Akright Projects</td><td>1480 houses sold. Plan to build 1500 houses by 2012</td><td>2 – 4 bedroom houses</td><td>45 – 250m</td><td>0.23%</td></tr>
<tr><td>National Housing and Construction Company</td><td>5500 houses built and sold. Plan to build 2000 houses by 2015</td><td>Apartments of 1 – 3 bedrooms and single houses of 2 – 4 bedrooms</td><td>30 – 350m</td><td>Between 0.09 and 0.27%</td></tr>
</table>

Source: Kalema W and Kayiira D; 2008

Generally, Uganda's housing developments are not based on what Ugandans necessarily want or can afford, but are largely driven by market forces.

With home prices remaining high, more people are being priced out of the real-estate market and are instead looking to rent. From Table 4 below, by 2007, 30 percent of the population in urban areas owned a house, increasing by about 2 percent from 2002, while 57 percent of the population in urban areas rented.

Table 4: Housing Tenure Types

Housing Tenure Types	Year 2002	Year 2007
1. Owner-occupied	Urban:28.8% Rural:85.9%	Urban:30% Rural: 86%
2. Rent	Urban:57% Rural:8%	Urban:57% Rural:8%
3. others including Squatters	Urban:13% Rural: 6%	Urban:13% Rural:6%

Source: Ministry of Land, Housing & Urban Development, 2008 and UNHABITAT; 2008

For prospective home owners, they opt for the incremental building method – for both home ownership and rental housing – with owner savings, being supplemented by relatively small, short term (under 3 years) loans from either commercial banks or micro-finance institutions (See Box 1 below on the incremental building approach).

This approach appeals to lenders as well as borrowers, and is seen as reducing underwriting risk. Most of the homes built by the young and growing modest and lower-middle classes, who constitute about 35 percent of the labour force, have been built this way.

Box 1: The Incremental Building Approach - The 80m^2 House

1. **Stage One:** At this stage, prospective homeowners will buy land at UGX 4.5 million ($ 2,000), including the cost of infrastructure and titling fees, pay for the house design at UGX 0.2 million ($ 100), pay administrative costs of UGX 4.5 million ($ 2,250) and undertake the initial stages of construction; building the foundation, priced at UGX 0.8 million ($ 400).

2. **Stage Two:** This stage will involve building up to wall plate level, priced at UGX 3.6 million ($ 1,800), roofing the house, priced at UGX 3.2 million ($ 1,600), and constructing the floor slab and plastering walls, all priced at UGX 3.2 million ($ 1,600).

3. **Stage Three:** This stage will involve constructing the ceiling using ceiling boards, priced at UGX 1.6 million ($ 800), fitting windows and doors, priced at UGX 1.2 million ($ 600), plumbing works (fitting the kitchen and the toilet), priced at UGX 0.9 million ($ 450), fitting electricity wires and applying and installing an electricity meter, priced at UGX 0.6 million ($ 300), and applying and installing a water meter, priced at UGX 0.2 million ($ 100), finishing the outside of the house (plastering and building the verandah), priced at UGX 1.1 million ($ 550), and painting the inside and outside of the house, priced at UGX 1.2 million ($ 600).

Source: Merrill S; Kalema W; Kayiira D. 2009

4.0 BARRIERS TO HOUSING DEVELOPMENT AND AFFORDABILITY

In this section we discuss selected issues that have constrained the development of Uganda's Housing Industry.

4.1 Lack of Long-term Funds

Uganda's financial system still lacks sufficient long-term liabilities, owing to an undeveloped pension industry and limited life insurance funds.

The commercial banks, which play the dominant role, have mostly short-term deposits and are therefore inclined to provide loans only for periods not exceeding two years.

Longer term lending, when provided, is mainly drawn down from lines of credit provided by institutions such as the Apex IV credit (provided by the European Investment Bank), FMO, IFC, Proparco, and other IFIs. As development institutions, these lenders provide longer tenures, at below market rates of interest. Table 5 below provides a summary of typical costs for these lines of credit.

When lending to customers, the banks will add a margin of between 2% and 6 %, depending on the risk assessment of the project and the borrower. The term will be typically 3-7 years, with a grace period of up to one year.

Table 5: Lines of Credit: Cost to Banks

Lender	UGX Interest rate	Fixed/ Variable	USD Interest rate	Fixed/ Variable
EIB Apex			5.11	Fixed
EIB Apex	8.25	Fixed		
IFC			5.38	Variable
FMO			5.21	Variable
FMO	10.58	Variable		
NSSF	12.50	Fixed		

Source: Merrill S; Kalema W; Kayiira D. 2009

In assessing the risk of a housing construction project, a bank will consider the likelihood of securing buyers for the finished houses, through pre-construction sales, either for cash or through mortgage financing. Thus, availability of mortgage financing makes a housing development more bankable (Source: Merrill S; Kalema W; Kayiira D. 2009).

In the current Ugandan market, only a few banks are even interested in lending for property development. Among them, East African Development Bank (EADB) funds only large projects, of over US$ 5 million, providing housing for the upper and middle income groups. Stanbic Bank is interested in similar projects. DFCU is willing to finance construction of more modest housing, subject to risk assessment.

4.2 Infrastructure Provision and Costs

The Local Government Act (1997) empowers local authorities to control development and provide urban services. However, **delivery of the vast bulk of infrastructural services (access roads, water, sewerage and electricity connections) has been pioneered by developers and individual builders**, to make their housing estates more attractive to end buyers (See box 2 for more details). Infrastructural investments are estimated at between 15 and 25 percent of the price of the house depending on the location of the site on top of the existing infrastructure services.

Ways have been sought in the past on how to form a partnership between utility suppliers the National Water and Sewerage Corporation (NWSC) and the electricity distributor UMEME) and developers, to reduce on the cost of the delivery of these services. Unfortunately, this move was unsuccessful; hence infrastructure costs are still high.

Box 2: Delivering Infrastructure in a Housing Estate

Infrastructural delivery starts off with the demarcating of plots and opening access, which involves the removal of vegetation and topsoil, leveling of the soil, and the construction of access roads. This is followed by making a connection to the main water grid, (usually one stand pipe) that supplies water for construction. It is from this connection that individual houses are later connected. For areas that are not connected to the water grid, as was the case with Mukono District, water is ferried from nearby wells or supplied by water tanks. Electricity connections are made during the furnishing of houses. In the case of sewerage, septic tanks are built, given the limited sewerage network. Developers meet the full connection costs for every utility, which are later passed on to the end buyer.

Source: Merrill S; Kalema W; Kayiira D. 2009

The central government has recently shown interest in establishing how much some developers have incurred[2] in the delivery of infrastructure. In line with the national housing policy that is due in 2009, government plans to direct NWSC and UMEME to meet connection costs, rather than play an investigative role!

4.3 Land Provision and Cost

Uganda's land tenure systems have presented a major hurdle to the supply of decent housing stock, especially in urban areas.

The Land Act provides that land is held under four tenures; mailo[3], customary[4], freehold and leasehold. However, terms set on how they are exercised (other than leasehold) do not adequately respond to changes in urbanization[5]. For example, in the case of the mailo tenure, the Act separates ownership of land (title holder) from occupancy or ownership of development by 'lawful' occupants.

[2] In November 2008, the MLHUD officially requested Tirupati Developments (U) Ltd to submit costs it had incurred and those it intends to on infrastructural delivery for all its developments

[3] Land held under mailo tenure system is mainly in Buganda (Central region) and some parts of Western Uganda. The system confers freehold granted by the colonial government in exchange for political co-operation under the 1900 Buganda Agreement. Essentially feudal in character, the mailo tenure system recognizes occupancy by tenants (locally known as bibanja holders), whose relationship with their overlords is governed and guided by the provisions of the 1998 Land Act. The holder of a mailo land title has absolute ownership of that land. One only loses such ownership when such land is needed for national interests but still amicable compensations have to be done for a peaceful relocation

[4] Under the Customary tenure, land is communally owned by a particular group of people in a particular area. Its utilization is usually controlled by elders, clan heads or a group in its own well-defined administrative structures. In Uganda, this land tenure is usually in the north, eastern, north east, North West and some parts of western Uganda. Over 70% of land in Uganda is held on customary tenure system

[5] Source: Ministry of Housing, Lands and Urban Development; Drafting the National Land Policy 2008

This system has over the years made it difficult for title holders to make direct improvements on their land, as they cannot easily sell it off (since it is tenanted), nor can they easily mortgage it. It has also has locked up large areas from development in the Kampala area, which has physical planning and infrastructure development challenges. Nevertheless, a National Land Policy has been drafted to guide the country on land issues, although some of its clauses on customary land have been bitterly challenged by cultural groups.

The land registration process has on the other hand started to shape up. With assistance from the Private Sector Competitiveness Project II (PSCP II), the streamlining of land registry activities (which included rehabilitation, computerization and the recruitment of additional land registrars), has improved the provision of the mailo land registry services.

It now takes 30 minutes from 12 days to complete a search for the sorted and vetted files, while transfers and mortgages take up to 3 days. In line with this, the Ministry of Lands Housing and Urban Development (MLHUD) with support from the World Bank has constructed 20 land offices to curb the forgery of land titles[6].

In terms of pricing, the high cost of land has significantly slowed down the provision of affordable housing. Land costs have more than doubled over the last decade. This increase in prices is partly attributed to the lack of finance available to land owners to expeditiously develop their land.

In the Kampala prime area, a 25 decimal-plot goes for about UGX 75 million (USD 30,000), while in peri-urban areas like Namugongo (12 km from Kampala City), the cost of same plot ranges between UGX 25 million (USD 10,000) and UGX 15 million (USD 6,000). Overall, land acquisition and registration constitute about 20 percent of the cost of a housing unit. Table 6 outlines prices of land in selected major towns in Uganda.

Table 6: Cost of a 500m^2 Plot in selected urban areas near Kampala City

Town	Distance from City Centre (km)	Cost of a 500m^2 (UGX, millions)	Cost per m2 (UGX, 000)
Namugongo, along Jinja Road	12	13	26
Bweyogerere, along Jinja Road	9	16	32
Luzira	7	50	100
Bwebajje, along Entebbe Road (near Akright's Kakungulu Estate)	18	12	24
Mukono, along Jinja Road	15	4	8
Kasangati, along Gayaza Road	15	4.5	9
Nansana, along Hoima Road	13	8.5	17
Seeta, along Jinja Road	13	10	20
Abaita Ababiri, along Entebbe Road	30	7.5	15
Bulenga, along Mityana Road	17	3.5	7

Source: Compiled by Consultant from various publications, including newspapers

5.0 CONCLUSION

The housing finance sector in Uganda continues to expand, with high-end mortgage borrowing showing particular growth, however, at high interest rates, largely attributed to the increasing size of government fiscal deficit.

[6] Source: The New Vision; 28th December, 2008

Commercial banks have increased their exposure to the sector, numbering 9 out of 22 by June 2011, though, with a preference for well-built houses in planned neighbourhoods.

With the urban population growing at a rate of about 5 percent annually, and in the absence of proper urban planning and development controls, most houses constructed have not been of sufficient quality to attract bank financing.

The housing finance sector is constrained by a lack of sufficient long-term liabilities, owing to an undeveloped pension industry and limited life insurance funds.

Further, the high cost of land and the delivery of infrastructure (access roads, water, and sewerage, among others) has slowed the provision of affordable housing in the country.

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