

LEASE-TO-OWN MODEL AS A VERITABLE CAPITAL MARKETS INSTRUMENT TO ADDRESS HOME OWNERSHIP IN NIGERIA

by

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at the

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1. Strategic Issues in Housing Delivery

- a. Key Obstacles and Constraints to Housing Delivery**
- b. Mortgage as Response to Affordability**
- c. Impediments to Mortgage Access**
- d. Affordable Housing Delivery – The Vicious Cycle**
- e. The Lease-To-Own (LtO) Imperative**
- f. Main Benefits of LtO**

2. LtO Example: Lagos CHOIS Limited Partnership

- a. Lagos CHOIS LP – Overview**
- b. The CHOIS Alternative to the Vicious Cycle**
- c. Key Features of CHOIS Lease-To-Own (LtO)**

3. Lease-To-Own Funding Model

4. Framework for Public/Private Collaboration

KEY OBSTACLES AND CONSTRAINTS TO HOUSING DELIVERY

Land

- ✓ Absence of clear property and security rights
- ✓ Mandatory Governor's consent for all land transactions
- ✓ Inefficient land management system
- ✓ High cost of land transactions
- ✓ Premium barrier
- ✓ Slow change in use of public land

Other Issues

Building technology

Housing Stock

- ✓ Acute shortage of housing stock
- ✓ Inadequate scale of delivery
- ✓ Artisanal construction - over 80% of houses built by individuals
- ✓ Absence of quality assurance framework - fragmented industry
- ✓ Housing delivery models not replicable – projects carried out in silos
- ✓ Dearth of community management to preserve asset value

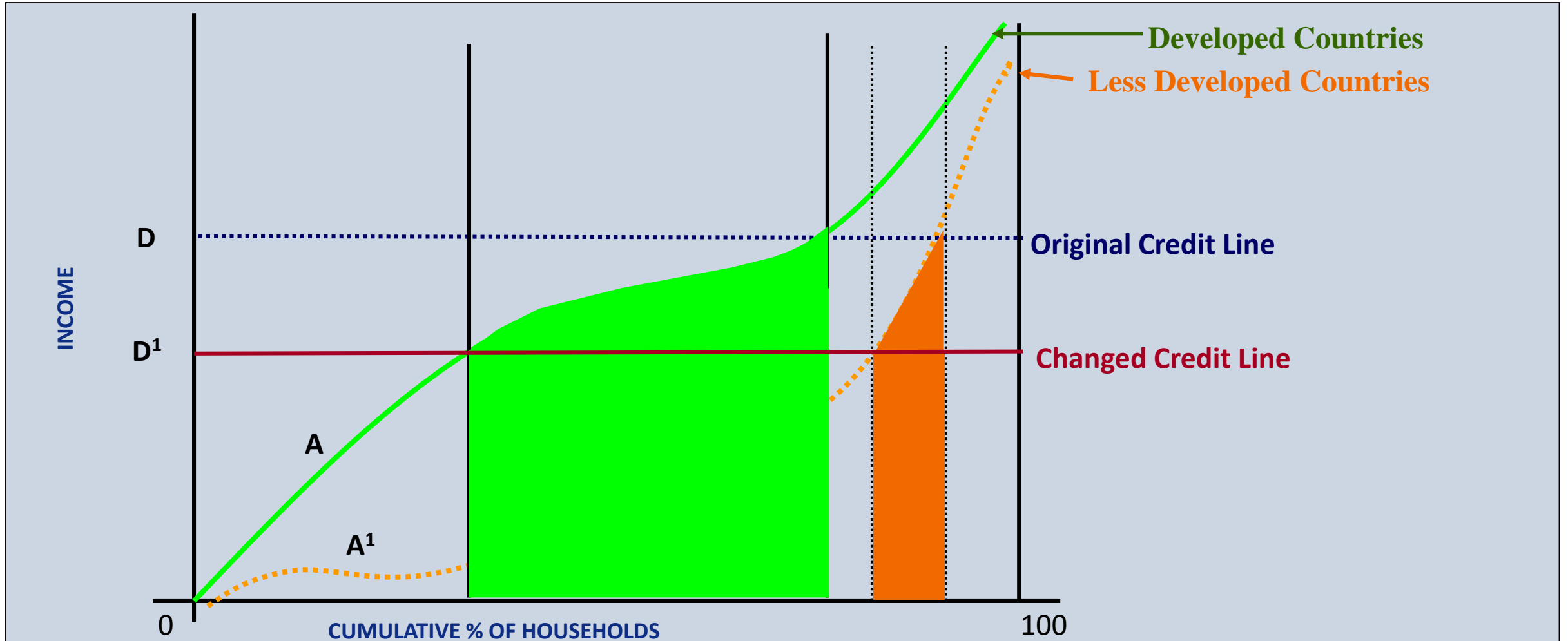
Consumption

Housing Finance

- ✓ High interest rates reflecting risk and source of funds
- ✓ Absence of long term mortgage finance for investors
- ✓ Ineffective foreclosure laws
- ✓ Equity deposit bar off-takers
- ✓ Sporadic informal income
- ✓ Inflexible mortgage product
- ✓ **Affordability gap** between cost of houses and income of end users

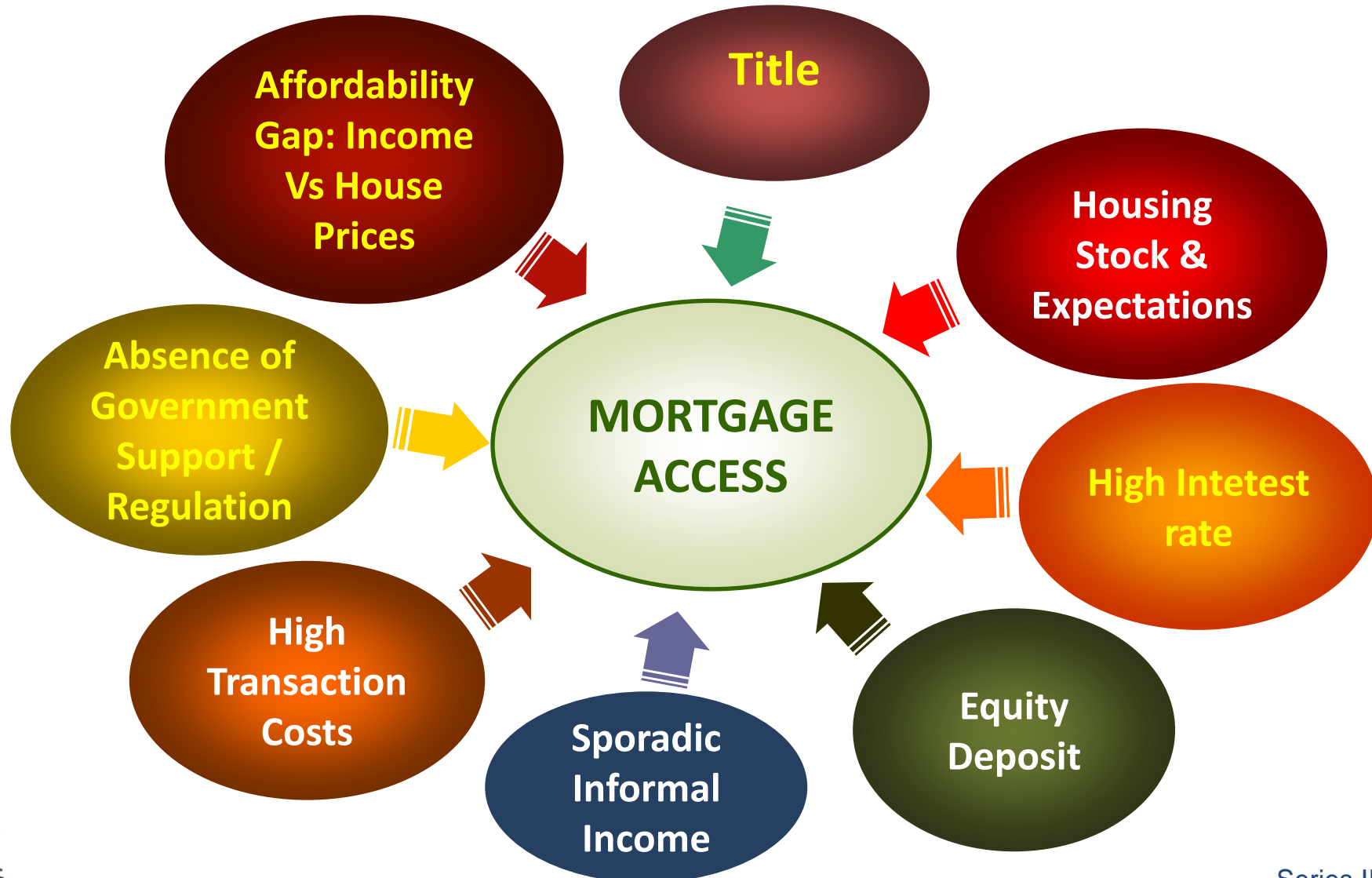
Infrastructure

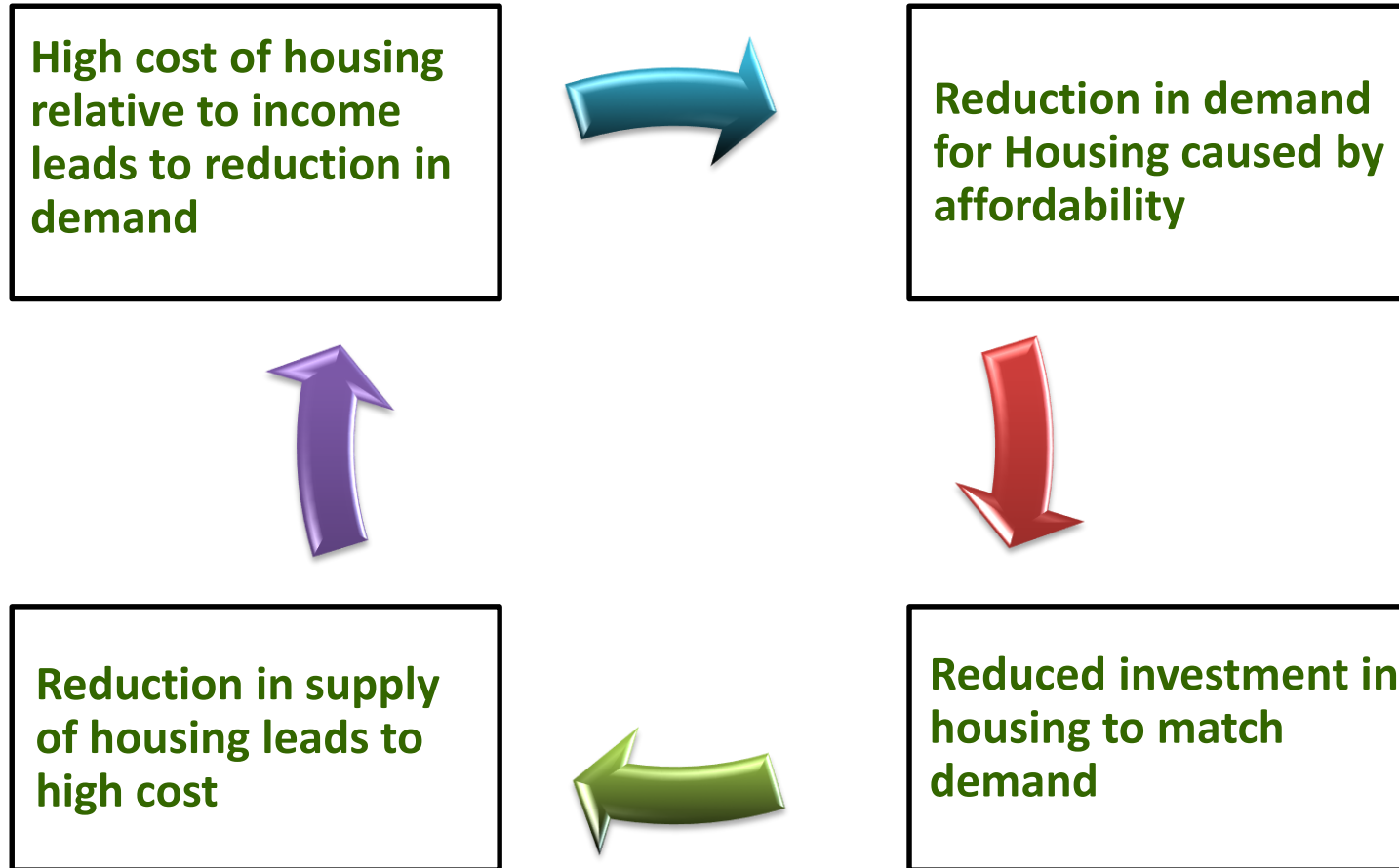
Effect of Changing Credit Lines With Different Income Distributions



A and A¹ = Income distribution for Developed and less Developed countries respectively

Source: Mumtaz B, Quoted by Reis, PMO "Non-Conventional Housing Finance Mechanisms for Less Developed Countries" PhD Dissertation, UK (CNAA), 1991





THE LEASE-TO-OWN (LtO) IMPERATIVE

For most Nigerians on low to low/medium income, the conventional principal plus interest repayment mortgage is unlikely to be accessible or even affordable. As a result, many people in this income group are excluded from access to decent housing.

The Lease-to-Own model (Rent) offers an alternative, stepped approach to home ownership allowing prospective purchasers to pay for their homes in small affordable steps, whilst offering a decent return for investors.

Low Cost Start – initial costs are low compared to traditional mortgage enabling buyers to get a foot on the property ladder;

Flexibility – within the 3-15 year purchase option window, subscribers can buy equity they do not own as quickly or slowly as their circumstances allow;

Affordability – in a high interest rate environment, Lease-to-Own schemes are more affordable and can significantly increase the number households with access to decent homes;

Reduced Risk – Title is not transferred to subscribers under the Lease to Own option until full purchase is completed.

Scale – large number of households can be provided unprecedented access to home ownership.



LAGOS CHOIS LIMITED PARTNERSHIP

Registered under the Partnership Law of Lagos State 2003 as amended 2008. Registration No: LPN 025

**A Public-Private Partnership for Affordable Housing Delivery between
Lagos State Government
and
First World Communities Ltd.**

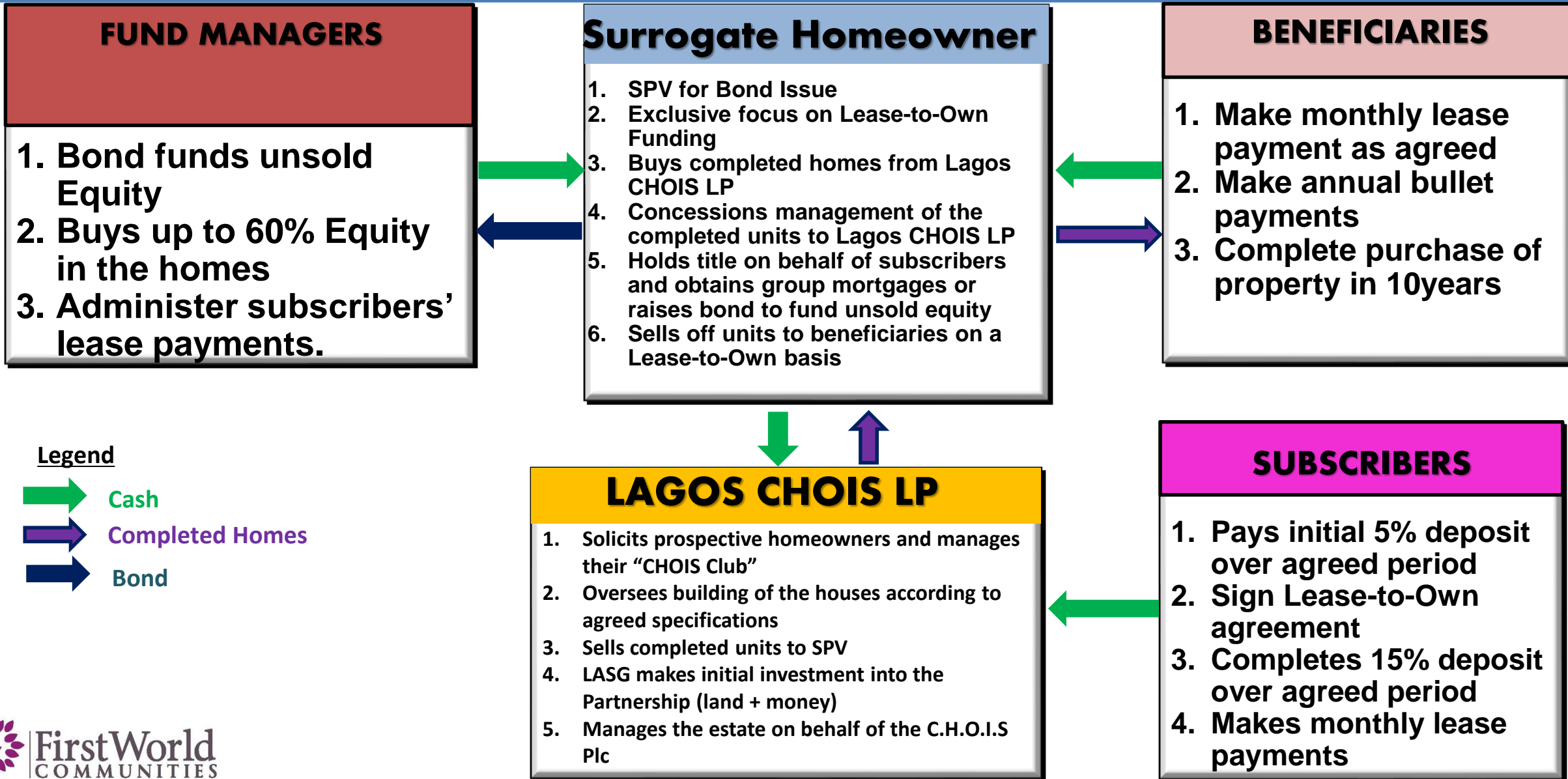
- **Key objective is to enhance affordability to the general public through Lease-to-Own and Shared Equity schemes, in addition to conventional mortgage options**
- **10,000 high quality affordable homes in the 3 Senatorial Districts - Abijo, Agbowa/Epe, Lagos Central and Badagry axis**
- **Purchase of 1,000 units by Lagos State Government at below market rate, in return for land allocation at discounted value**
- **Independently managed neighbourhoods to form nucleus of new towns**
- **Concession for infrastructure (Water, electricity, etc.)**
- **Government provision of transport infrastructure**

| CHALLENGE | THE CHOIS ALTERNATIVE |
|--|--|
| Housing Stock | CHOIS is a scheme, not a one-off project. At least 10,000 units are proposed with economies of scale. |
| Land and Title Registration | Global consent and waiver of transaction charges on initial title transfers. |
| High Transaction Costs | Aggregated demand and transactions through sale to groups/Cooperatives lowers transaction costs |
| Finance - Affordability/Cost of Entry | CHOIS has novel purchase options enabling buyers to enter the market at a level they can afford e.g. Shared Equity and Lease-to-Own. |

The key features of the CHOIS LtO scheme are as follows:

- Prospective buyers pay a minimum 5% of the total purchase price to move into their home. This security deposit is to be funded from personal savings.
- After taking possession of their home, buyers will make monthly lease payments to cover interest on the outstanding purchase price.
- Between Years 3 – 15 from the date of taking possession, subscribers are required to redeem the outstanding purchase price by “buying ” the equity they do not own at a value predetermined every 3 years.
- On completion of payment, title passes on to the buyer. Up until then, title is held by the Surrogate Landlord.

CHOIS LEASE-TO-OWN (LtO) FUNDING MODEL



Objective

“Provision of large scale affordable housing on a sustainable basis”

END-USER GROUPS

- ☑ Public sector employees
- ☑ Private sector workers
- ☑ Informal Sector
- ☑ Displaced people
- ☑ Youth hostels
- ☑ Other Special groups including: Elderly, Physically challenged, HIV, Homeless, Widows.

KEY ELEMENTS

- ☑ Sustainability
- ☑ End-user driven
- ☑ Targeted subsidies
- ☑ Focus on low to middle income
- ☑ Multiple Tenure – Ownership, Renting, Lease to Own etc
- ☑ Social Renting
- ☑ Community management
- ☑ Affordable Housing Plan

FUNDING

- ☑ Capital Markets
- ☑ Pension Funds link
- ☑ Restructure National Housing Fund – “PENCOM” model
- ☑ Govt property re-development for fund raising
- ☑ Diverse mortgage products
- ☑ “Surrogate Homeowner” funding

DELIVERY MODELS

- ☑ Urban Regeneration
- ☑ Densification in Brownfield Sites
- ☑ Housing Associations
- ☑ Housing Cooperatives
- ☑ Supported Housing
- ☑ Rural Housing
- ☑ New Towns with government presence

**THANK YOU
FOR YOUR
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