

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

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

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

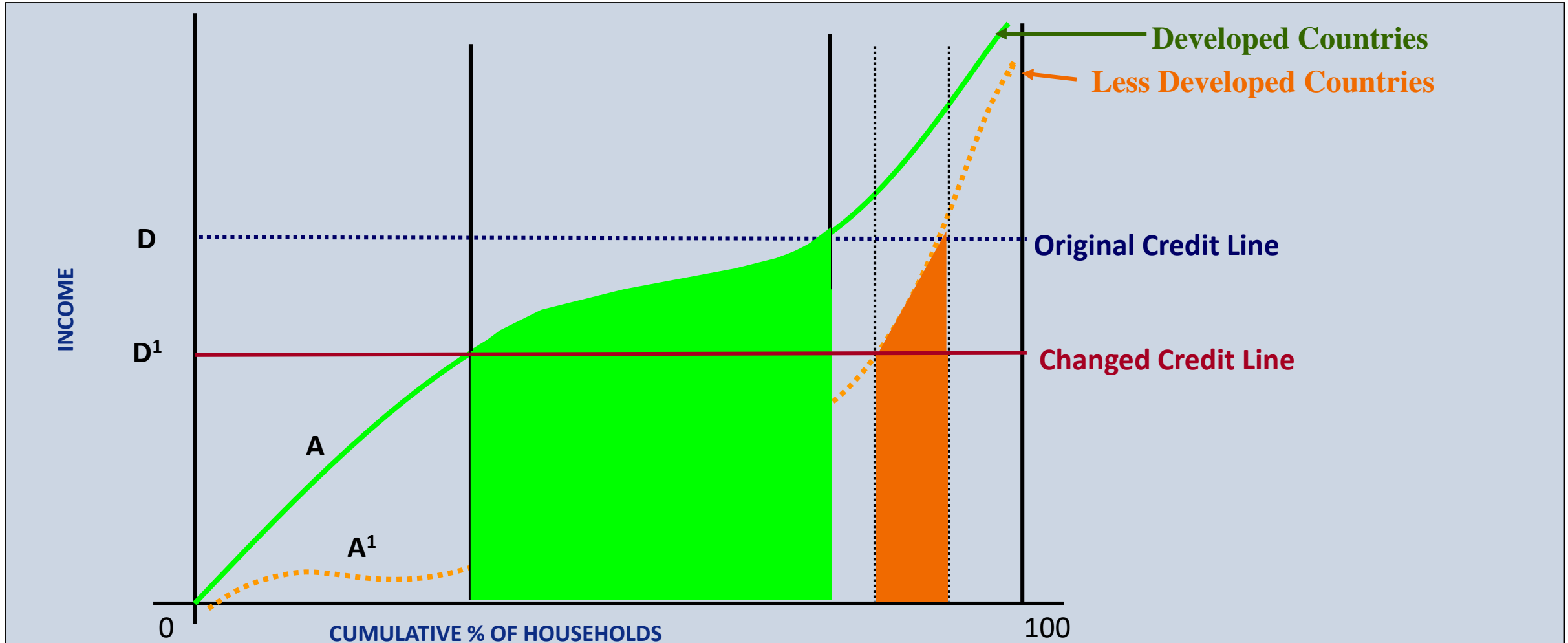
Other Issues

Building technology

Consumption

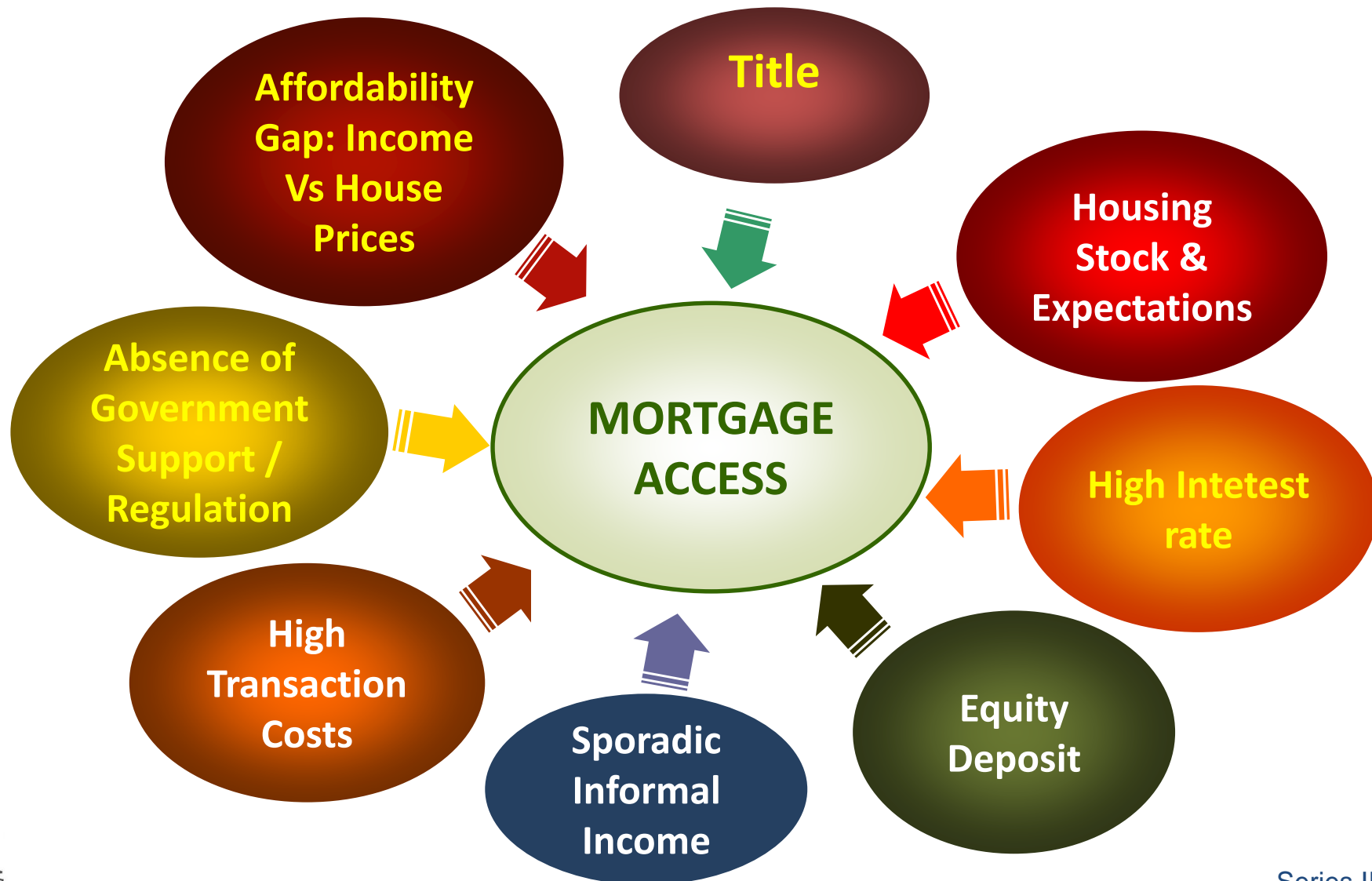
Infrastructure

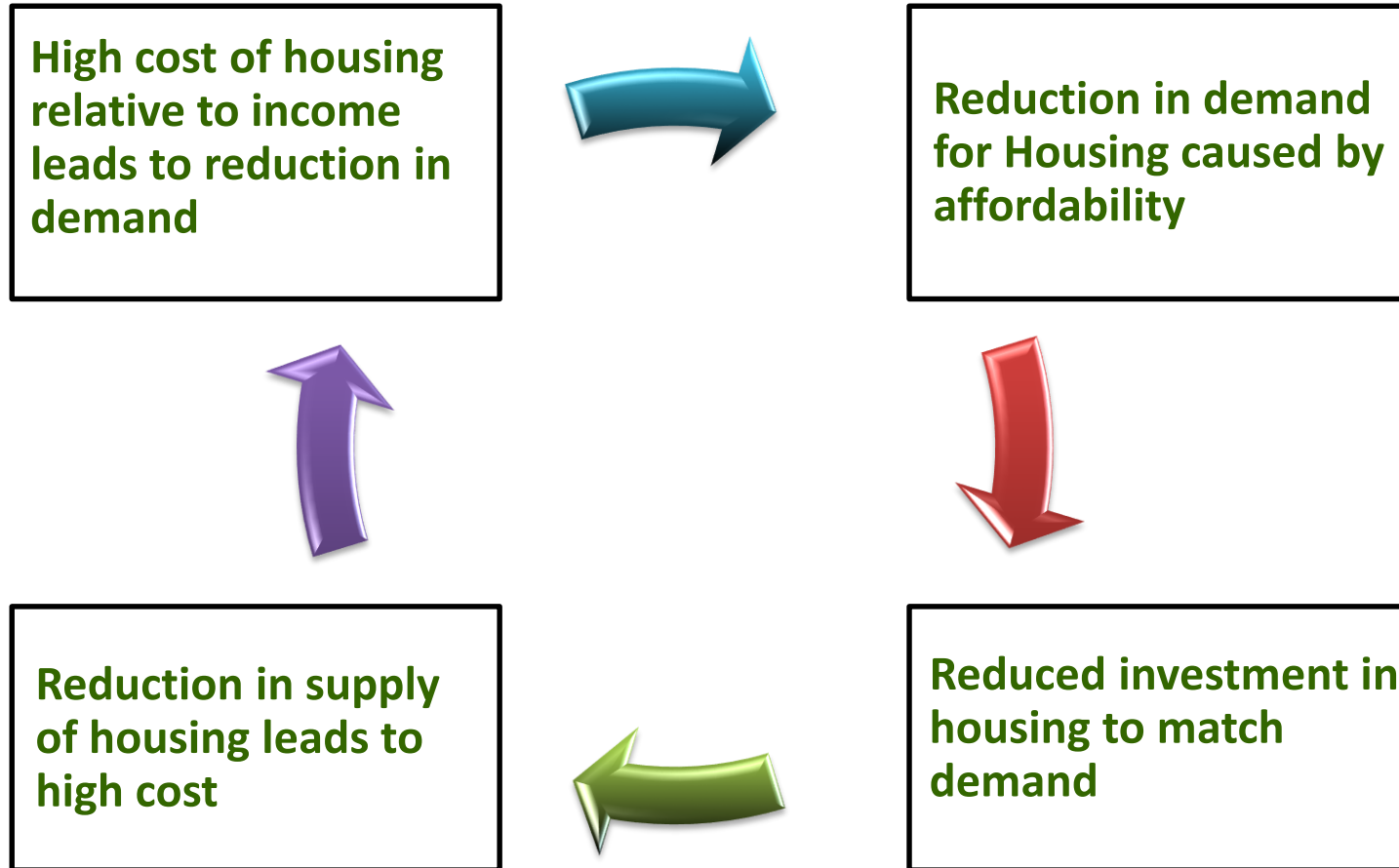
Effect of Changing Credit Lines With Different Income Distributions



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**

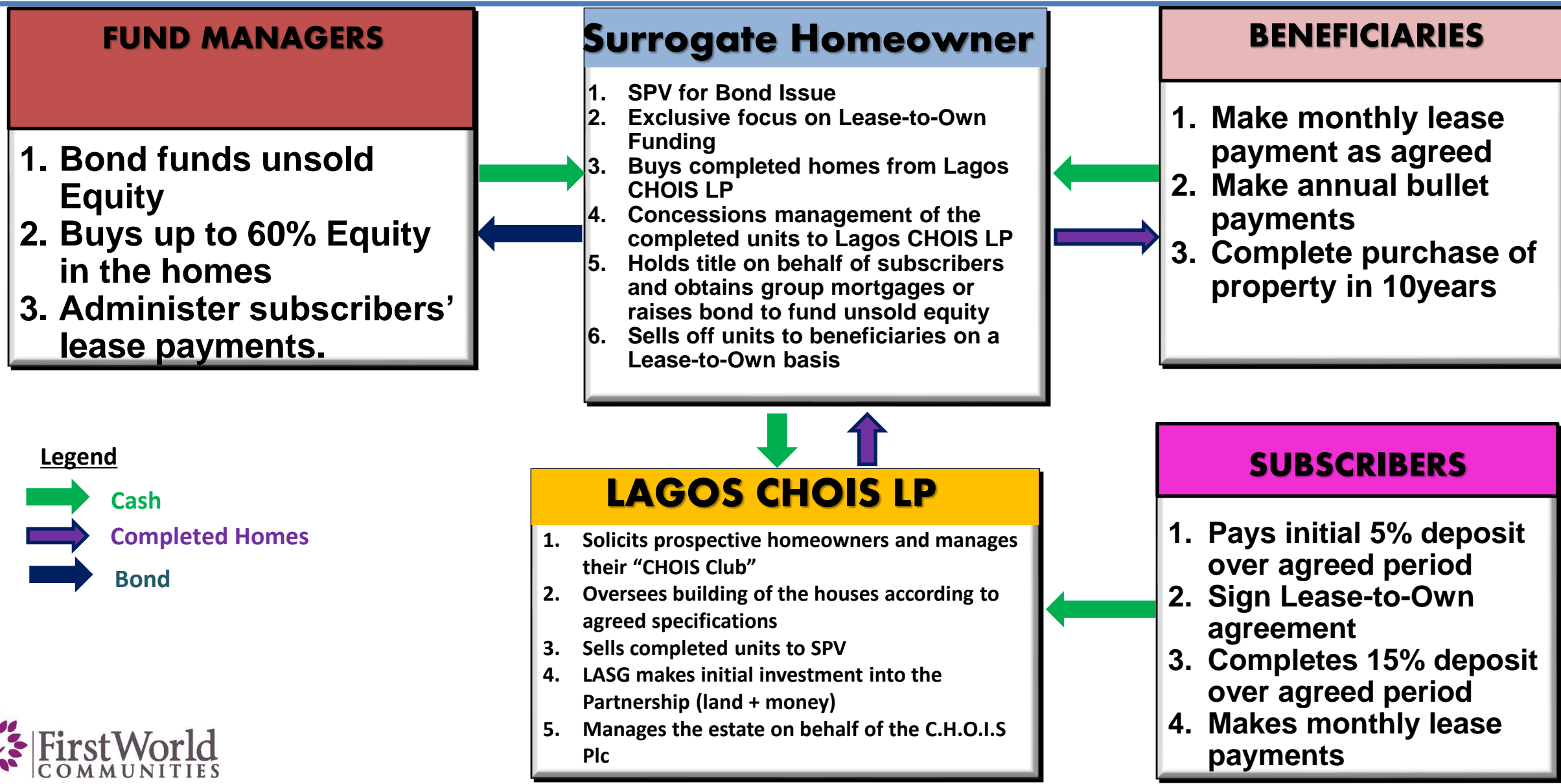
CHALLENGE	THE CHOIS ALTERNATIVE
Housing Stock	CHOIS is a scheme, not a one-off project. At least 10,000 units are proposed with economies of scale.
Land and Title Registration	Global consent and waiver of transaction charges on initial title transfers.
High Transaction Costs	Aggregated demand and transactions 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.

KEY FEATURES OF CHOIS LEASE-TO-OWN (LtO)

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



FRAMEWORK FOR PUBLIC/PRIVATE COLLABORATION ON AFFORDABLE HOUSING DELIVERY

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 KIND ATTENTION



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