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In Africa, Mortgages Boost An Emerging Middle Class

Zambian Experiment, With U.S. Help, Aims to Create a New Suburb

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LUSAKA, Zambia -- Herrick Mpuku has spent a decade building his family a house, and it's still not done. There are no kitchen cabinets, and the concrete-block walls haven't been plastered smooth. But now the 45-year-old economist is having a new home built -- one he expects to go from groundbreaking to the final coat of paint within six months.

SEE A PHOTO SLIDESHOW

Michael M. Phillips
Alfred Chims Mbewe and his son Thomas at the house it has taken him nine years to build.

The difference? Mr. Mpuku built his first house the traditional African way: In excruciatingly slow stages, he bought the land, had the foundation laid, erected a few feet of wall and finally got a roof installed, whenever he had something left over from his paycheck. This time, he's getting a mortgage.

On a continent known for its desperately poor and obscenely rich, a small middle class is on the rise and beginning to get access to one of the staples of bourgeois life: the home loan. Mr. Mpuku is buying a home in the Lilayi Housing Estate, a novel 3,700-house suburban development that provides a buyer with both a simple new house -- more Levittown than McMansion -- and the mortgage to buy it.

"The key is the financing," says Mr. Mpuku, a jovial man with a mathematical mind, who chose a three-bedroom model with a small yard on a fenced, 3,200-square- foot patch of land. "I can't buy a house with cash."
The World Bank estimates the sub-Saharan middle class will be 43 million strong by 2030, up from 12.8 million in 2000. Though the bulk of the continent's middle-class consumers are in South Africa, growing markets in such countries as

Zambia, Nigeria, Kenya and Ghana are attracting attention from investors around the world.

"There's an emerging middle class in Africa that is hungry for housing," says John Simon, executive vice president of the Overseas Private Investment Corp., a U.S. government agency that is lending mortgage money to the Lilayi project and is investing in home-finance projects in Kenya and Ghana.

LENDING A HAND

- **What's New:** Lenders are beginning to offer mortgages in Africa, making homeownership possible for the growing middle class there.
- **The Background:** Political and economic instability, as well as corruption, has worsened the housing shortage in many African countries.

- **Obstacles:** In Zambia, where AIDS has reduced the average lifespan to 38 years, at least one lender requires loans be paid by age 55.

Africa's middle-class consumers generally have far less access to housing loans than do their counterparts in Latin America, Central and Eastern Europe or some parts of Asia, such as India, according to OPIC. And, at least in Zambia, being the pioneer has been painful. Bureaucratic and legal obstacles have put the Lilayi project a year behind schedule, leaving some would-be customers wary.

But Tope Lawani, Nigerian-born co-founder of the private investment firm Helios Investment Partners, says investors are starting to realize that the continent doesn't lack demand for middle-class goods and services, from air travel and electric power to hotel rooms and financial services. What's missing, he says, is companies willing to do business in Africa and create a competitive market to fulfill pent-up middle-class aspirations.

With backing from American and other investors, Helios has put together a $300 million fund aimed at companies that target African middle-class consumers. Among its first investments is a stake in First City Monument Bank in Lagos, which plans to expand its credit-card, consumer-loan and mortgage businesses. The housing shortage is particularly sharp in Zambia.

During the country's experiment with socialism after it won independence from Britain in 1964, state-owned companies provided housing for their workers. But economic realities intervened, and in the early 1990s the country began a 15-year, stop-and-go process of economic reforms. The government sold off much of its housing stock to the occupants, and now the Ministry of Local Government and Housing estimates that the city of Lusaka alone is short hundreds of thousands of housing units.

The wealthy buy their homes with cash. The diligent build theirs over years, the way Mr. Mpuku did, if they can find land. The rest languish in rental housing or shantytowns -- or rental housing in shantytowns. Even young professionals with decent jobs often live in crowded Lusaka slums for lack of other options.
Until recently, banks have been unwilling to help. Just one in every 1,000 Zambians has a housing loan from a bank, according to a report by FinMark Trust, a U.K.-government financed research organization.

A mere 16% of Zambia's 11.5 million people have salaried jobs, and the country has no credit bureaus to help banks assess the risk of potential borrowers. The Ministry of Lands was rife with corruption, and it could take six months or more to transfer titles for purchased plots. Even someone who paid a bribe to expedite a title had no guarantee that several others hadn't been issued deeds to the same parcel. So banks had no guarantee that they'd have anything to repossess if the mortgage went sour.

Few would-be homeowners were interested in borrowing when loans cost as much as 40% a year. The bankers themselves had no trouble making money without a mortgage business, however. They paid single-digit interest on deposits, then bought government bonds that generally paid five or 10 percentage points above the widely fluctuating rate of inflation -- big profits for no work and little risk. A few years of economic and political reforms have reduced inflation to a more reliable 11%. With government borrowing reduced, banks are looking for new opportunities, and several now offer mortgages.

Robin Miller

The Lilayi project was the brainchild of Robin Miller, the grandson of a Scottish engineer who in the early 20th century worked on a grandiose scheme to lay a rail line from Cape Town to Cairo. In the restaurant near Mr. Miller's office hangs a black-and-white photo of his late grandfather, P.T. Miller, and other pith-helmeted colonials in front of a locomotive that bears a sign reading, "Cape to Cairo -- we've got a long way to go."

The rail line didn't make it all the way to Egypt, but P.T. Miller bought 5,000 acres alongside the tracks in Lilayi, a village now absorbed within the sprawling city limits of Zambia's capital, Lusaka. His grandson Robin, 47, runs the family

holding company that descended from that investment. The family properties include a game lodge, a commercial-real- estate company, now publicly traded, and the family farm, which produces wheat, baby corn and other crops.
The soil on one 625-acre parcel, however, was never good enough for farming, and in 2001 Mr. Miller began work to convert it into a suburban housing development. "The reason this took so long is we couldn't find anyone who would provide mortgage financing in this part of the world," says Mr. Miller, who has center-parted hair and black wire-rimmed glasses.

"The problem with housing is not building it," says Mr. Miller. "We all know how to build houses. It's not demand. There are plenty of people who want houses. The problem is allowing the people who want the houses the financing capacity to buy them."

Eventually, Mr. Miller found investors. Among them was Edward E. Galante, an American who had cut his real-estate teeth developing coin-operated laundries and strip malls in California's San Joaquin Valley. He fell in love with a Zimbabwean, moved to Zimbabwe in 1992, bought a 200-acre flower farm outside Harare and began building houses. Mr. Galante's Houses for Africa Holdings Inc., a Delaware corporation, built more than 4,000 units in Zimbabwe, before the economy succumbed to corruption, mismanagement and hyperinflation. In 2002, allies of Zimbabwe President Robert Mugabe grabbed Mr. Galante's flower farm as part of the government's campaign to seize white-owned properties across the country, but he kept his house and his company, which has a 50% stake in Lilayi.


Edward E. Galante

Private investors alone, however, couldn't come up with enough long-term money for the Lilayi development, and in early 2005 Mr. Galante turned to the U.S. government. In 2003, President Bush had made a trip to Africa, where he touted the virtues of finance in promoting middle-class stability and economic growth.
He instructed OPIC, which has traditionally insured U.S. private investments abroad, to boost its support for home finance in Africa. So the agency was eager when Mr. Galante delivered the Lilayi project to its doorstep. OPIC agreed to lend more than $46 million in mortgage money. The U.S. Agency for International Development provided guarantees for Lilayi's construction loan. The Dutch aid agency FMO financed the installation of roads, water hookups, sewers and power lines.

On a main street in downtown Lusaka stand three Lilayi show homes -- two semidetached one bedrooms and a stand-alone two-bedroom model. They're simple, cinder-block structures painted in terra cotta and apricot and roofed with metal sheeting. The interiors are rustic -- a metal kitchen sink with a small drainage area and no cabinets, concrete floors and a single bathroom with a shower stall. The company installed beds to prove to customers that the rooms are large enough to hold them. But the homes are solidly built by Sisk Zambia, a local unit of an Ireland-based company. They are wired for electricity and piped for water and sewers -- features absent in many Zambian homes.Inside the office, eager Zambian sales executives, such as Humphrey Kapapula, a 34-year-old former car salesman, make calls to potential clients and await walk-in customers.

Mr. Kapapula bought a small plot of his own in 1998 for the equivalent of $650 and had just enough left over to put down a foundation. By the time he had enough money to start building walls, the foundation had cracked from exposure to the weather, he says. He sold his Toyota and borrowed against his pension to rebuild the foundation and install a two-bedroom house on top. At times the family went without food to pay for buckets of cement, and it took seven years to finish the house. "It's lack of financing," he says. "You couldn't plan."

Mr. Kapapula, wearing a black pinstripe suit with a red-checked shirt and stubby, black-and-silver tie, stressed the advantages of mortgage financing when Emmanuel Chungu walked into the Lilayi office one day last month. A sturdy 37-year-old in a sweater vest, Mr. Chungu is a sales manager at a glass company, looking for a starter home for his family.

"Will it have a shopping mall or will we have to come into town?" Mr. Chungu asked Mr. Kapapula, who described plans for swimming pools, cinemas, stores, schools, churches and parks inside the development. Businesses have expressed interest in setting up shop in the new neighborhood, but the developers acknowledge that will come about only if enough homes are sold and built.

Mr. Kapapula walked Mr. Chungu through the unfamiliar process of buying and financing Lilayi homes, which range in price from $40,000 for a one-bedroom semidetached to $46,000 for a two-bedroom stand-alone to $69,000 for a three-bedroom home. First, he'd open a savings account with Stanbic Zambia Ltd., the local subsidiary of South Africa's Standard Bank, whose representative has a desk in the Lilayi sales office. When Mr. Chungu had enough saved in the account to fund 20% of the house price, plus closing costs, Stanbic would review his mortgage application. If approved, his down payment would then go for the purchase of the land.

The Lands Ministry also has promised to set up shop inside the Lilayi office, where officials say they will transfer title to the buyer within 48 hours. The old lands minister was sacked -- and eventually arrested -- for alleged corruption. The new minister, lawyer Bradford Machila, sees the Lilayi project as a pilot for how he'd like to decentralize and speed up the ministry's services to home buyers.

Once Mr. Chungu took possession of his new home, he would begin making payments on the mortgage, at a 14% interest rate, for 15 years. "All of the hassle is taken out of it for you," Mr. Kapapula told Mr. Chungu. Mr. Chungu found the pitch attractive. He now pays $650 a month to rent a two-bedroom apartment outside of town. Monthly payments on a three-bedroom Lilayi house would be $850. He vowed to consult with his wife and return the next week to open his deposit account.

Progress on the project hasn't been nearly as fast as the developers had hoped. They held a launch ceremony at the site more than a year ago, attended by the country's vice president and OPIC President Robert Mosbacher Jr. But workers didn't break ground until last month, when they began grading roads through the bush.

Lilayi officials say they won't begin house construction until they have committed buyers for the first 250 units. So far, about 120 would-be buyers have opened accounts and begun saving toward their down payments. The delays have made some potential buyers suspicious -- though they can withdraw their money until they buy the land and sign a mortgage contract. "You're going to see them very soon in the press getting keys to their houses," Mr. Kapapula assured one dubious customer.

One obstacle for the developers was that they are trying to provide long-term loans in a country where life often isn't very long. Because of the AIDS epidemic, the average Zambian lives just 38 years. The developers and lender are requiring mortgagees to pay off their debt by age 55. The homeowners must also buy life insurance -- included in the monthly mortgage payments -- to cover the remaining payments should they die prematurely.

Mr. Miller and his team negotiated a group rate with a local insurance company that didn't require HIV tests. Mr. Mpuku, the economist who is buying a house for himself, his wife and two children, could only qualify for a nine-year mortgage in order to complete payments before his 55th birthday.

Some Zambians simply don't like the idea of taking on debt. Alfred Chims Mbewe, a 39-year-old business-developmen t manager for a construction company, bought a parcel in Lusaka's crime-ridden Matero slum for $500 in 1998. He has spent the last nine years building a two-room, asbestos-roofed house that he intended as a servants' quarters. But he moved his own family in even before there was glass in the windows, and has yet to get enough cash together to break ground on the main house.

Still, Mr. Mbewe doesn't want the risk of foreclosure that comes with a mortgage. "I'm not inclined to lose the property I've suffered so much for," he says.

Many of Lilayi's setbacks are the result of trying to do something that hasn't been done before. Altogether, there are nearly 50 legal agreements governing the project, adding time and cost. Some Zambian politicians were leery of Lilayi's proposal to create a homeowners association, viewing it as a potential rival to their own parties, according to the developers. Mr. Galante says that generally the Zambian authorities have been very supportive, despite flashes of bureaucratic inertia and inexperience.

"If you knew how tough it was going to be before you started, you'd never have done the bloody thing," he says. "But it's so much fun." Before the first foundation has been laid in Lilayi, he and his partners are scoping out their next housing project in Zambia.

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Feature Photos

Above, boys play **barefoot soccer in Lusaka's Matero slum**

The need for accessible home financing seems particularly sharp in Zambia. Officials estimate that the capital city, Lusaka, is lacking at least 500,000 housing units. The shortage has left many Zambians, including young professionals, living in shantytowns.

Because there is little financing available, many Africans build homes one piece at a time, over many years. **The owner of this house in Matero** has been working on it for five years.

Nearby, **Alfred Chims Mbewe and his son, Thomas,** stand on the porch of the two-bedroom house Mr. Mbewe has spent nine years building. Although he intended it as servants' quarters, Mr. Mbewe moved his own family in even before there was glass in the windows.

The work still isn't quite finished, and Mr. Mbewe doesn't have the cash to start on the main house. But he is reluctant to take on a mortgage; he fears losing his land and house if he falls behind on his payments.

A freelance porter with his hand-crafted cart in downtown Lusaka.

While the average Zambian makes just **$3 a day**, the struggle faced by Mr. Mbewe and others in the country's growing middle class is drawing the attention of developers and banks who are eager for their business.

In **Lilayi**, a village now absorbed within Lusaka's sprawling city limits, a developer is working to build a suburban housing development with solid houses, tarred roads, power and water services. To help entice buyers, it will also offer 15-year mortgages

The developer, Robin Miller, left, is planning the development on a 625-acre parcel of his family's farm, land his Scottish grandfather purchased in the early 1900s. At left, Mr. Miller strolls through a model home.

The model homes, on a main street in downtown Lusaka, left, are simple, with concrete floors, cinder-block walls and metal roofs. But they're solidly built, and come with a rare feature -- a long-term mortgage.

The smaller models have **shower-stall bathrooms**

A map inside the Lilayi sales office shows the layout of the planned development, called the **Lilayi Housing Estate**. The project is slated to have 3,700 homes, each with full utilities, plus shops, schools, swimming pools, parks and churches.

Salesman **Humphrey Kapapula** goes over Lilayi floor plans with customer Miyoba Lubemba. The sales office is a one-stop shop. Buyers can pick out their homes, apply for a 15-year mortgage and get the title to their property all in a single building

A street sign marks one edge of the planned neighborhood. The developers say they will start building after they secure commitments for the first 250 units.

For now, **construction workers are grading roads** and installing infrastructure, with financing from the Dutch development agency FMO. The developers hope potential buyers will be encouraged by signs the project is moving ahead.

"The problem with housing is not building it," says Mr. Miller. "We all know how to build houses. It's not demand. There are plenty of people who want houses. The problem is allowing the people who want the houses the financing capacity to buy them."

For now, **a bicycle will have to do** for this young man carting firewood away from the development site.

The Miller family's property is **near a rail line** that was intended to connect Cape Town, South Africa, all the way up to Cairo. The line was never completed, but Mr. Miller hopes residents of the Lilayi development will some day be able to commute into Lusaka by train.