

**OFF PLAN SALES:  
IS IT AN ELIXIR FOR PROPERTY  
FINANCING IN EMERGING  
MARKETS?**

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*“Engaging the Challenges, Enhancing the Relevance”*

**Collins KOWUOR, Kenya**

20 June 2014



**PROPERTY DEMAND IN AFRICA**

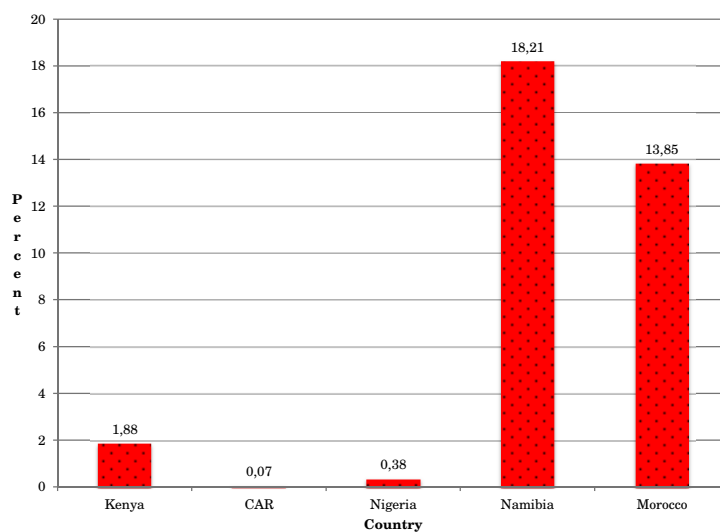
- Urbanization rate p.a.– 3.5% past two decades
- Africa cities fastest growing in emerging markets
- About 40% of her 1B pop live in cities & towns
- Some cities will may have over 85% of their country population in next two decades
- Demand for housing, office and other property uses to grow

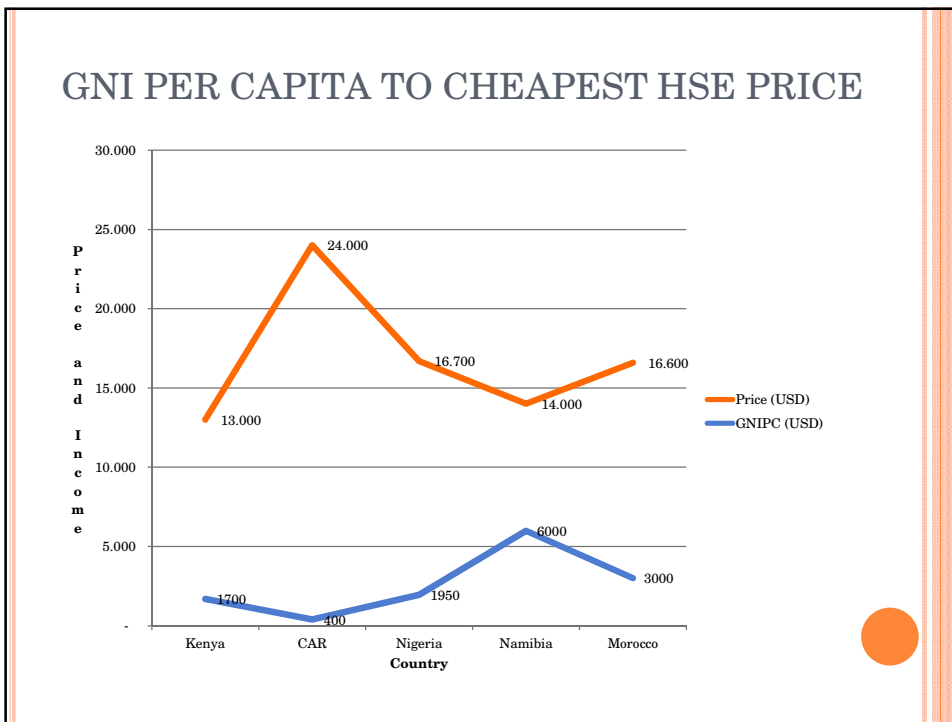
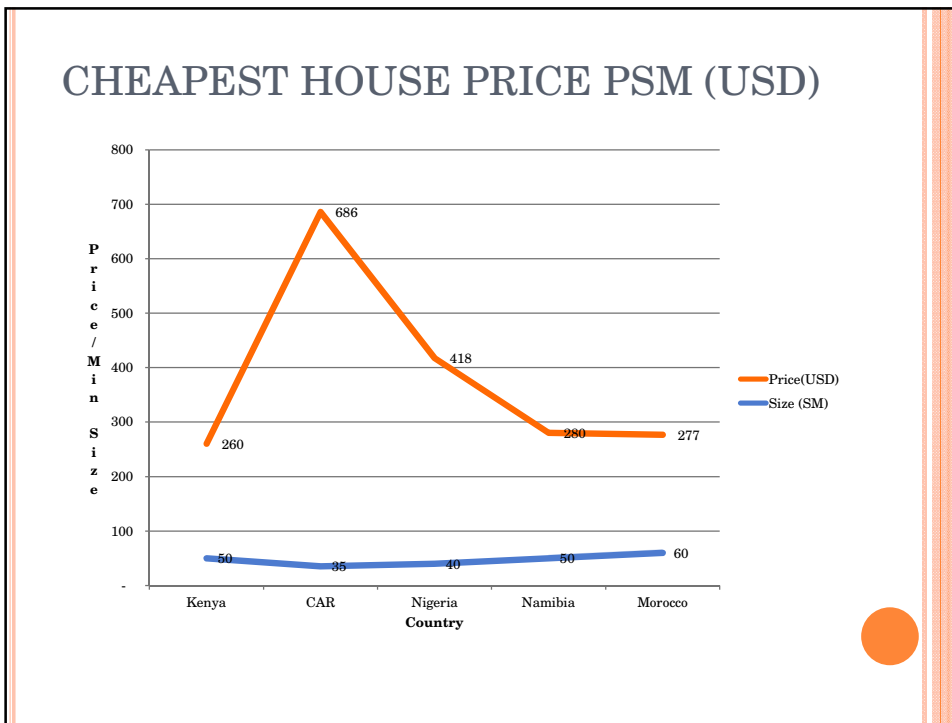


## MORTGAGE MARKETS

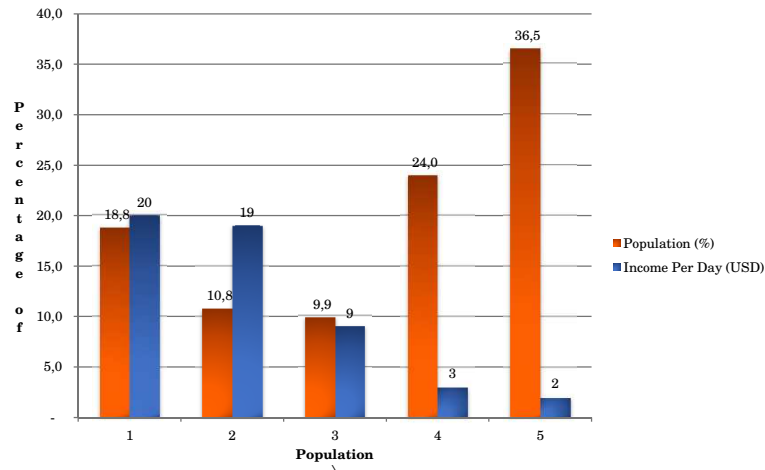
- Emerging and expanding
- Reality of affordability offers opportunity
- Average housing price – USD 31,000
- No opportunity at this price!
- Innovation necessary (off plan sales?)
- Majority at lower end of income pyramid
- Disruptive business model – Affordability and Delivery Nexus

## MORTGAGES AS A PERCENT OF GDP






## POPULATION AND INCOME LEVEL




## CENTRAL AFRICA REPUBLIC CASE

- Cheapest new built house – 24,000 USD
- Less than 1% of population can afford
- Urban population about 39.35%
- About 80% live on less than 60USD per month

## THE CASE IN MOROCCO

- About 57% live in urban
  - About 14% live on less than 60USD per month
  - Government subsidy support delivery of housing
  - Cheapest new house is 16,600 USD
  - Buyer would earn about 425USD per month to afford a 20 year mortgage at a 6% fixed interest
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## THE CASE IN NAMIBIA

- About 39% live in urban
  - About 51% live on less than 60USD per month
  - 87% eligible for state subsidy
  - State delivery insufficient
  - Household earning under 1,000 USD per month would afford a 20 years mortgage at 11%
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## THE CASE IN KENYA

- About 24% live in urban
- About 67% live on less than 60 USD per month
- Cheapest new house is 13,000 USD
- Household need to earn 677 USD per month to afford the house with 20 year mortgage at 19% after deposit of 10%



## THE CASE IN NIGERIA

- About 58% live in urban
- About 78% live on less than 60 USD per month
- Minimum wage of 116 USD per month would only afford to borrow 4,685 USD
- Cheapest new house is 16,700 USD, almost for times what minimum wage can afford

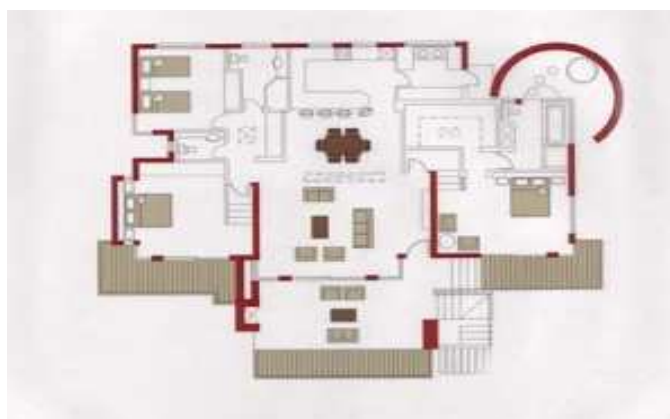


## WHY INNOVATE?

- Reality of housing affordability across Africa
- Only small fraction of population in each country can afford cheapest newly built house
- Demand for affordable housing is significant
- Building for the market require innovation
- COULD OFF PLAN SALES BE ONE WAY?



## OFF PLAN SALES



## OFF PLAN PROPERTIES

- Some adverts – properties not in existence yet
- Developer has land but development needs huge capital outlay or has less money
- Has to borrow from financiers to develop.



## OFF PLAN PROPERTIES

- Cost of finance too high to make price of the housing units competitive.
- Developer then sells to a buyer a property before that property is built or completed.
- Buyer purchasing the right to a completed property in the future.





## HOW DOES IT WORK?

- Prepares a concept of the development with nice documentations
- 3D drawings with site, floor and unit plans.
- Provide detailed information on financing terms, projected rentals, etc



## HOW DOES IT WORK?

- Plans approved by the approving authority
- Offer the yet to be developed units for sale.
- Developer therefore raises enough funds for starting construction.
- Construction done in phases to sync with installment payments upon stage valuation.
- Developer may differentiate discount rates in line with stage of the development.
- The nearer the development is to completion, the less the discount given and the more expensive the units become.




## BENEFITS OF OFF PLAN SALES

- *Locked in a price* –still paying the discounted price for the property even if increased.
- *Low initial capital outlay* – Most developers require only 10% deposit to secure the property. Full amount paid when house built.
- *Value appreciation* – Depends on market trends, the home bought off the plan may increase in value when you make entire payment two or three years later.
- *Purchasing the best units*- earliest opportunity to buy most sought after properties and location. i.e. penthouse.


## WHAT TO CONSIDER!

- ***The developer:***
- One must get as much information as possible about the developer.
- How long have they been in business?
- How many developments have they successfully completed?
- ***Property type:***
- Are you for investment or home or hybrid property?
- Do you prefer stand alone or gated community?

## ALSO CONSIDER THESE!

- **Location:**
  - Very important consideration, as it will affect future value of the unit and area around the development.
  - Is the necessary infrastructure such as utilities and roads in place?
  - **Contract:**
  - Make sure that terms and conditions of contract with the developer are clear enough and water tight.
  - The devil is in the detail
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## THE RISKS!!

- *Unfulfilled expectations*
  - Final quality and standards may differ from what you imagined or saw in display house
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  - *Price fall.*
  - No guarantee that the price will go up
  - May find yourself paying too much for the house if the market falls during construction.
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## THE RISKS CONTINUED!!

- *High interest rates*
- Banks may increase interest rates before you settle on the property and this can make things hard for you if you are planning to fix the term of the loan at the current interest rate.
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- *Non completion*
- The constructor may go out of business before construction of the property is completed and the buyer may not be able to recover the monies advanced.
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## CONCLUSION

- This is an innovation to address the opportunity in emerging markets
- Off plan investments can offer very impressive returns.
- But the higher rewards requires that you be extra vigilant and do your homework well.
- Simply **ask** a lot of questions, **see** many things and **use** the right people.
- Governments, relevant institutions and professionals need to take this forward

## ASANTE SANA

*“People who say it **cannot**  
**be done** should not  
interrupt **those** who are  
doing it.”*

George Bernard Shaw”

