The Housing Market in Ghana

THE HOUSING MARKET IN GHANA

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1.   INTRODUCTION

Contrary to the apparent neglect in mainstream macroeconomic analyses in the past, the housing market has become important and strategic to policy makers in recent times due to its impact on output fluctuations and inflation. Generally, activities in the housing industry may affect the well being of a people in terms of size and composition of household wealth, accessibility to credit, labour productivity, employment and other macroeconomic variables. When house prices rise, the expectation of further appreciation builds into market sentiments, and this expectation boosts demand for homes, which in turn stimulates new construction and aggregate demand[1]. Also, higher prices of residential housing tend to increase the wealth of households who provide these facilities, thus stimulating consumer spending which is a component of aggregate demand.

Thus, house prices influence aggregate demand and resource utilization, and hence monetary policy must respond to innovations in house prices since the role of the central bank is to manage total demand in the economy so as to produce desirable outcomes for inflation and employment. The issue of house prices and its impact on the economy has therefore attracted a lot of attention among central bankers in particular, as the debate rages on the appropriate policy response to asset price bubbles that might be detrimental to the economy. Indeed the recent developments in the subprime mortgage market in the United States is ample evidence of the role of the housing sector in overall macroeconomic stability.

[1] *But the sustained rise in prices can simultaneously sow the seeds of a market correction by making houses progressively less affordable relative to income, thereby limiting the demand for them and restraining additional construction. The net effect would also depend on the strength of liquidity constraint.*

Although this phenomenon of asset price bubbles and its effects on output and inflation is mainly observed in developed economies, recent trends in Ghana and other developing countries suggest that their housing industries may be susceptible to asset price bubbles with its economic consequences as well.

Compared with other advanced countries, Ghana's housing industry is at a rudimentary stage. High property prices particularly in the urban centers such as Accra, Tema, Kumasi and Takoradi fueled by a rapidly growing middle-class, as well as rapid and uncontrollable urbanization have turned the housing industry into one of the critical developmental issues facing policymakers. Of importance to policy is the pricing and sources of funding required to meet the huge demand for housing in Ghana which is estimated at about one million units over the next ten years[2].

Recent developments in the Ghanaian economy indicate a boom in the construction sector, including the housing sector. The gradual improvement in housing supply notwithstanding, the sector remains characterized by high costs of rental units and house prices. This has generated debates on the major underlying forces driving Ghana's housing market. It is argued that the boom in the housing sector is largely driven by the surge in remittances. Other opinions are that these are mainly driven by improved access to global financial markets owing to the stability of Ghana's economy. In other words, non-resident Ghanaians who have access to low-interest global funds are increasingly investing in the housing sector.

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[2] *Ministry of Works and Housing, 'Housing in Ghana and Investment Opportunities' 2005*

The prevailing macroeconomic stability of the domestic economy characterized by low inflation and declining interest rates have also boosted investments in the housing sector by resident Ghanaians who have access to lower cost of funds from domestic sources.

Against this backdrop, this study attempts to answer the following key research questions:

- What are the trends in house prices in Ghana, and what is driving this trend?

- To what extent is this trend driven by remittances?

- Does the housing market respond to foreign interest rates, or is it driven by domestic monetary conditions?

- How does the mortgage market affect the provision of housing in Ghana?

The analysis of this study utilizes survey[3] data conducted in the Greater Accra, Ashanti, Central and Western Regions due to paucity of housing data in Ghana. The survey focused on two main issues, that is, housing conditions and the underlying causes of the sustained rise in property prices. The principal findings from the study showed that cost of inputs and land acquisition are the main driving force behind the persistent increases in house prices.

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[3] *Survey focused on estate developers under Ghana Real Estate Developers Association (GREDA)*

Additionally, remittances play a significant role in the housing market since most non-resident Ghanaians transfer funds either directly or indirectly for the purposes of purchasing or building houses. Favourable economic conditions both domestic and international also directly affect housing market through interest rate movements.

In the next section of this study, we present a brief review of the literature on linkages between macroeconomics and housing. Section 3 follows with the state of the housing market and Section 4 discusses requirements for a vibrant mortgage industry in Ghana. This is followed by a discussion of the survey results on estate developers and we conclude in Section 5 with some policy recommendations.

2. REVIEW OF LITERATURE

2.1 MACROECONOMICS AND HOUSING

Until quite recently, economic literature appeared to have ignored the role of housing markets or treated it as one of several consumption/investment[4] goods. Mainstream urban economics more or less ignored interactions of housing markets with the macro economy, as some of its theoretical and empirical analyses only included macroeconomic variables as exogenous control variables in their models. The new field of finance however appears to have taken this interaction between macroeconomics and housing markets more seriously as literature on consumption-based asset pricing and studies on the equity premium puzzle began to emerge.

In recent times, the dynamic general equilibrium framework has brought in its wake a number of research activity in this area. One strand of the literature focuses on housing demand and supply; and explores how the equilibrium price reacts to different types of shocks, while the other strand focuses on the option aspect of properties and contributes to areas such as mortgage-financing under the possibility of default and early termination of contract[4].

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[4] *Standard theories - Keynesian, neoclassical, and subsequent modern theorists regarded housing wealth as any other form of wealth. Hence, according to neoclassicial or modern theories, housing wealth will drive consumption just like any other form of wealth, and indeed, demand for residential housing for example is regarded as any consumption good.*

This notwithstanding, these new approaches are largely based on the individual property buyer's problem as a representative agent, and hence the theoretical and macroeconomic aspects of the housing market in an economy remains largely undeveloped.

Housing or shelter is considered one of the most important basic needs in every society. Some schools of thought argue that improved housing markets will provide a number of positive externalities, as well as direct consumption benefits. For example, new housing construction could stimulate aggregate output through a production multiplier, and an enlarged housing supply will allow labor to find vacant units and move to areas of the country providing higher wages, thereby enhancing productivity. New commercial construction will have similar macroeconomic effects and add to the productive capacity of the national economy.

Other schools of thought argue that housing had the potential of becoming an engine of economic growth because of its high yield on invested resources, a high multiplier effect and a host of beneficial forward and backward linkages in an economy. For instance, increased housing activities could give impetus to the economy with enhanced capacity utilization of related industries such as steel, cement, transportation etc. This could in turn lead to an increase in government revenues by way of excise, stamp duty, and other taxes. Also demand for building materials, jobs and professions of builders and developers, architects, civil engineers, property valuers, contractors, plumbers and furnishers; all thrive when housing activities are booming. Indeed, the economic impact of housing does not end when a home is sold. Housing continues to be an economic force long after the sale is closed through ancillary services such as decorating, property alterations, repairs, etc.

Housing production and consumption affects the socio-economic development process in different ways. It promotes economic growth through the expansion of the construction industry and contributes to reducing poverty by increasing the demand for low-skilled workers. Hence, the development of housing solutions has proven to be one of the most cost-effective ways of expanding the asset base of low-income households and enhancing both equity and growth. Nevertheless, most developing countries have systematically failed to provide adequate shelter to their people, and therefore unable to take full advantage of the economic benefits of a well-functioning housing sector. Improvements in the housing sector's performance are broadly accepted as a critical public policy with vast social and economic impacts.

Generally, housing is a major component of household wealth, especially for low-income households, and no doubt, housing wealth is increasingly gaining importance to most Ghanaians evidenced by the surge in demand for ownership. For many households it is the most important form of savings as homeownership is considered a source of protection for wealth against inflation in the long run. In relatively high inflationary environments, investors move away from money markets to the goods market as a hedge against inflation. Housing equally serves as collateral for borrowing by homeowners, generating funds for other investment and wealth creation. Thus, housing becomes both a 'cultivator' and 'protector' of wealth[5].

[5] Di, Zhu Xiao (2001): The Role of Housing as a Component of Household Wealth, Joint Center for Housing Studies. Harvard University, Working Paper W01-6

In most developed economies where housing equity is of much importance to households, it is found that homeownership has a significant impact on household wealth accumulation in the long run[6]. The activities of businesses, especially banks, are also significantly affected by homeownership. There is evidence that banks are the main source of finance for start-up businesses and that they are unwilling to grant unsecured lending. Thus, family homes have become one of the most acceptable collateral for granting credits. Additionally, high returns on housing investment provide yet another basis for increasing bank credit to the sector.

In terms of the aggregate economy, housing may also affect the efficient operation of the labor market in some economies. For instance, an upward pressure on demand for labor in one region without the corresponding supply could result in real wage increases in that region. The imbalance created will subsequently attract migrants from other regions of the economy who otherwise could be unemployed or underemployed. This process of labour movement may promote overall productivity in the economy and hence a higher sustained growth rate.

In addition to the economic benefits of housing, it is also an established fact that housing impacts positively on the social well being of the people. A study by Rohe, Zandt, and McCarthy (2001)[7], shows that people who are satisfied with their homes and neighborhoods are more productive at work.

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[6] *see Di, Zhu Xiaoand Yi Yang and Liu, Xiaodong (2003): "The Importance of Housing To the Accumulation of Household Net Wealth." Joint Center for Housing Studies, Harvard University, Working Paper W03-5*

[7] *Rohe, W. M., Zandt, S. V. and McCarthy, G. W. (2002): "The Social Benefits and Costs of Homeownership: A Critical Assessment of the Research" in N. P. Retsinas and E. S. Belsky (eds) Low-Income Homeownership: Examining the Unexamined Goal.*

Boem and Schlottmann (2001)[8] reported that children whose parents are homeowners tend to achieve higher levels of education and income, own homes sooner, and have larger housing and non-housing wealth accumulation than those otherwise.

Housing is usually the largest expenditure item in a family budget. High housing costs can strain a family budget, constrain availability of resources for other household needs such as utilities, education, health care, transportation, saving for retirement and emergencies. High housing costs also drain the family budget of expendable income that might otherwise be spent in the local economy, reducing the expenditure linkages of the household.

[8] Boem, T. P. and Schlottmann, A. M. (2002): "Housing and Wealth Accumulation: Intergenerational Impacts" in N. P. Retsinas and E. S. Belsky (eds). Low-Income Homeownership: Examining the Unexamined Goal.

3. THE STATE OF THE HOUSING MARKET IN GHANA

3.1 HOUSING CHARACTERISTICS

The most recent official[9] data on the distribution of housing in Ghana reports that there were 2,181,975 houses countrywide even though a total of 3,877,418 dwelling units or places of abode were also recorded. This implies about 1,695,443 'houses' or places of abode inhabited by a number of households are not conventional houses. (See Chart 1) This follows variations in definitions of a dwelling place and a house by the Ghana Statistical Service (GSS).

Chart 1: Distribution of Housing in Ghana
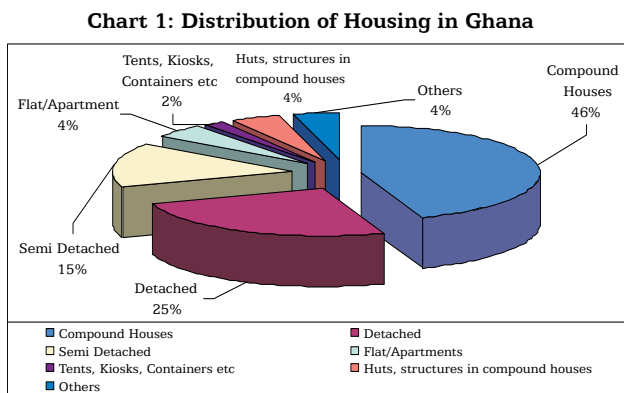
A dwelling unit is defined as "a specific area or space occupied by a particular household and therefore need not necessarily be the same as a house of which the dwelling unit may be a part". A house is defined as "…a structurally separate and independent place of abode such that a person or group of

[9] *Population and Housing Census 2000*

persons can isolate themselves from the hazards of climate such as storms and the sun".

In the recent Census, the GSS classified 'occupied dwellings' into 10 categories as follows: rooms in a compound, the separate house (detached house), semi-detached house, several huts/buildings, improvised house (kiosk/container), living quarters attached to a shop, camps or tent, hotel or hostel, flat or apartment, and others.

Of these, compound houses accounted for 45 per cent and emerged as the most common dwelling unit in both urban and rural areas. Separate or detached houses (24.1%) were found to be the second most common dwelling type in all regions (ranging from 15.9% – 27.2%) except the Volta Region (44.7%) where it is predominant. Semi-detached house (15.2%) is the third most common type in all regions and in rural (15.6%) and urban (14.8%) localities. Flats or apartments ranked fourth in the country (4.2%) and in urban localities (7.2%). 'Improvised house (kiosk/container) and living quarters attached to a shop' were found mainly in urban localities of the Greater Accra and Ashanti Regions due to rural–urban migration. In Greater Accra, for example, these improvised houses (kiosks and containers) are used for both commercial and residential purposes.

3.2   POPULATION DISTRIBUTION AND HOUSING STOCK

Population distribution largely reflects housing distribution in Ghana. The most recent Population and Housing Census (2000) places Ghana's population at about 18,912,079 in 2000, an increase of about 2.2 times over Ghana's population in 1970. According to the regional distributions, Greater Accra Region had the highest intercensal growth rate of 4.4 per cent, followed by Ashanti 3.4 per cent, Western 3.2 per cent, Northern 2.8 per cent and Brong Ahafo 2.5 per cent.

BOX 1: HISTORY OF THE HOUSING INDUSTRY IN GHANA

Post-Independence Era

The emphasis on developing the housing industry in Ghana probably commenced in the late fifties to early sixties as Ghana attained independence from colonial rule. As part of the 1960-65 National Development Plan, provision of housing was central as two main state bodies were formed to address housing issues: the State Housing Corporation (SHC) and the Tema Development Corporation (TDC). TDC was created with the special purpose of creating residential units in the rapidly growing Tema area as part of a major industrialization drive that saw the construction of a second sea port to serve Accra, the capital and the eastern parts of the country. This also led to the development of the Volta River project to provide energy to support the economic ventures associated with the establishment of the port. While TDC focused on providing residential housing in Tema, SHC worked in the regions across Ghana, providing real estate countrywide. Unfortunately, the resources allocated in the form of subventions, loans or grants for these ventures began to dwindle as Ghana's economic difficulties began to take a toll. Indeed, housing policy in Ghana has been fragmented instead of a holistic and comprehensive vision to deal with the complexities of housing a nation. Thus the housing sector began to experience a disjointed growth accompanied by urban sprawl as individuals built their own houses in an uncontrolled manner.

The National Shelter Strategy

In 1986, a National Housing Policy Committee was formed by the Ministry of Works and Housing (MOWH) to examine the housing situation in Ghana. This was geared towards an appropriate Government Policy and Action Plan that seeks to provide adequate and decent housing units in order to improve the quality of life of people in urban and rural areas. The focus of the said Committee

was on constraints in housing delivery, especially in the area of housing finance, land, physical planning, infrastructure, building materials, design and construction and coordination delivery efforts. The report culminated in a National Housing Policy and Action Plan covering the period 1987 through to 1990. Prior to the Action Plan, the MOWH had identified the need for a comprehensive National Shelter Strategy (NSS) and an enhancement of the Ministry's planning capacity to implement housing policies. The strategy sought to:

- Implement a revised national shelter sector policy and action plan for short, medium and long-term strategies for Ghana with emphasis on rural communities in order to assist them to improve their existing shelter or improve access to the means for providing their own shelter;

- Develop non-conventional shelter delivery systems which encourages community participation at all levels and with emphasis on local authorities playing a substantial role in the management and development of shelter;

- Establish guidelines and procedures to facilitate administration, monitoring and coordination of shelter programmes and projects at the grassroots level;

- Rationalize land tenure and land title regulations to enhance access to land for shelter;

- Improve delivery of housing finance and improved access to credit for the construction of shelter by individuals;

- Promote a cost effective construction industry and programmes to promote local building materials;

- Ensure greater involvement of women in planning, implementation and management of shelter programmes.

The Ghana Vision 2020

The First Medium-Term Development Plan of Ghana's Vision 2020, 1997–2000, targeted the provision of low-income housing units, which is affordable and within purview of the poor to improve their living conditions. The Plan introduced a new facility under the social security (or provident) scheme which would permit contributors to withdraw part of their contributions to purchase houses. Unfortunately, none of the housing strategies under the Medium-Term-Development-Plan were implemented due to lack of funds, private sector participation and political will.

The Ghana Poverty Reduction Strategy (GPRS I)

In 2001, a new party took over the reign of government. Like others, the focus has been on attracting foreign capital to fund housing development. This quest was boosted by Ghana's participation in the Highly Indebted Poor Country debt relief program of the World Bank which allocated some funds for the housing sector. The GPRS II (2006-2009) also has a special program targeted at the vulnerable and excluded, to upgrade slums for the benefit of urban slum dwellers most of whom are poor.

Also, the Ministry of Water Resources, Works and Housing is currently pursuing various affordable housing programmes through agencies such as the Tema Development Company (TDC), and the State Housing Company (SHC). Under the National Housing Programme, apartments and unit flats are currently being constructed in Accra, Tema, Cape coast, Sekondi-Takoradi and Tamale.

Central Region recorded 2.1 per cent and less than 2 per cent for each of the remaining four Regions. The census figures also showed that the national population remained largely rural, representing about 56.3 per cent of the total population. Greater Accra recorded the highest urban population of 2,539,221 (or 30.7%), followed by the Ashanti Region with 23 per cent.

Table 1: Regional Distribution of Stocks of Houses and Households(HH)

	2000 Population	No. of Houses	No. of HH	% Dis-tribu-tion of Hous-ing Stock	Urban Share of Hous-ing Stock	Pop. per House	Avg. HH size	HH per House
All Regions	**18,912,079**	**2,181,975**	**3,701,241**	**100**	**34.1**	**8.7**	**5.1**	**1.7**
Greater Accra	2,905,726	287,840	626,613	13.2	80.4	10.1	4.6	2.2
Ashanti	3,612,950	328,751	682,759	15.1	37.1	11	5.3	2.1
Western	1,924,577	259,874	410,142	11.9	27.1	7.4	4.7	1.6
Eastern	2,106,696	283,461	456,683	13	26.6	7.4	4.6	1.6
Volta	1,635,421	264,451	345,821	12	27.0	6.2	4.7	1.3
Nortern	1,820,806	177,785	245,617	8.1	24.4	10.2	7.4	1.4
Brong Ahafo	1,815,408	216,275	342,808	9.9	28.9	8.4	5.3	1.6
Central	1,593,823	223,239	365,777	10.2	26.8	7.1	4.4	1.6
Upper East	920,089	88,401	144,386	4.1	14.6	10.4	6.4	1.6
Upper West	576,583	51,898	80,635	2.4	17.4	11.1	7.2	1.6

Source: GSS Census Report and author's own calcculations

Total number of houses as at 2000 compared with number of households indicated acute overcrowding in most houses. As depicted in Table 1, on the average, there are about 8.7 persons living in each house in Ghana. Ashanti Region recorded the highest percentage of housing stock in the country (15.1%) corresponding

with its high population. Although Greater Accra recorded a lower share of housing stock (13.2%) compared with Kumasi, its urban share of housing stock was about 80 per cent. The census also indicated that the average household size in Ghana is 5.1 persons with about 1.7 households per house, and a total of 2,181,975 housing units nationwide. This number of households' vis-à-vis the population is clearly inadequate. For instance, if every household of 5.1 persons were to have a separate unit of housing then ceteris paribus, with a population of about 20 million, Ghana will need a total of 3,708,250 housing units.

Chart 2: Urban/Rural Population Distribution (millions), 2000
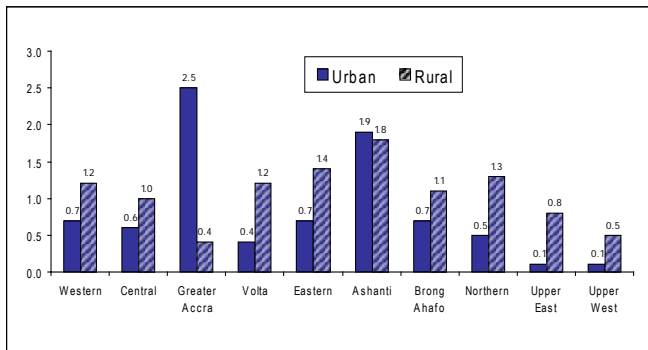
Source: Ghana Statistical Service

Given the intercensal population growth rate of 2.7 per cent per year, it is projected that Ghana's population could swell with an additional 5,773,522 persons by 2010. This implies that an additional 665,920 houses will be required to meet the population's demand for housing by 2010 assuming a constant household per house ratio of 1.7.

The estimated yearly housing requirement is depicted in Table 2.

Table 2: Estimated Housing Stock and Deficit

	Population	Households	Estimated Housing Requirement	Yearly Requirement
2001	19,422,705	3,808,374	2,240,220	58,896
2002	19,947,118	3,911,200	2,300,706	60,486
2003	20,485,690	4,016,802	2,362,825	62,119
2004	21,038,804	4,125,256	2,426,621	63,796
2005	21,606,852	4,236,638	2,492,140	65,519
2006	22,190,237	4,351,027	2,559,428	67,288
2007	22,789,373	4,468,505	2,628,532	69,105
2008	23,404,686	4,589,154	2,699,502	70,970
2009	24,036,613	4,713,061	2,772,389	72,887
2010	24,685,601	4,840,314	2,847,244	74,855

Source: 1960, 1970 & 2000 Population Census, and authors' calculations

3.3 MORTGAGE OR BUILD

The typical Ghanaian household is often faced with three choices in the acquisition of shelter. These are to rent, build or mortgage a home. In well developed countries, the mortgage industry has proved to be the most capable and superior financier of the housing needs of the population. Ghana's housing market is underdeveloped and owning a house is many a households' prime target. The trajectory towards attainment of this investment target is akin to the "Life Cycle Hypothesis" theory. At very early stages of their working lives, many households rent apartments. As incomes increase above the basic consumption needs, investment opportunities in the housing industry become prime objectives for many households. In particular, households are faced with the

choice of either mortgaging a home or building one. These choices are however dependent on income levels and access to land.

One critical factor that undermines 'own-building' in Ghana is the lack of secure, transparent access to land title. A study by Gambrah (2001) indicates that as at the time of the research, about 30,000 land title applications were in the backlog. The immediate results of such a problem are the lack of transparency and the ease of transfer. As noted in Asare and Whitehead (2006)[10], this will in turn perpetrate the multiple sales of property and insecure title and land tenure with the effect that the land market cannot operate effectively to either enable the development of a formal market for mortgage or to act as security for mortgage finance.

Chart 3: Number of Land Title Certificates (1990 – 2006)

y = 88.759x + 630.05
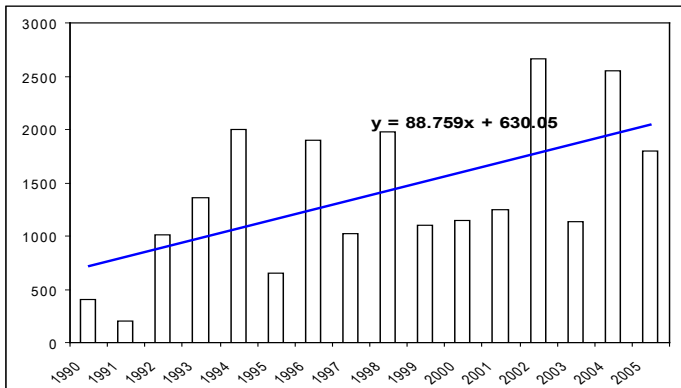
[10] *Asare, Evans and Whitehead, Christine (2006): "Formal Mortgage Markets in Ghana: Nature and Implications." RICS Research Paper Series, Vol. 6, No. 13, U.K.*

Chart 4: Number of Building Permits granted by TMA and AMA
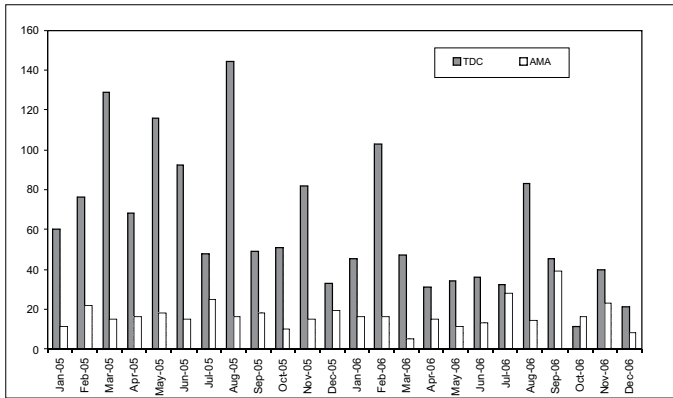
Cumulatively, Tema Metropolitan Assembly granted a total of 3,302 building permits between 2000 and 2006, representing an average annual growth rate of 6 per cent over the entire period. Between 2005 and 2006, the Accra Metropolitan Assembly (AMA) granted 404 building permits compared with 1,476 from the Tema Metropolitan Assembly. These trends portray a growing housing industry in Tema more than Accra. The main reason could be that Accra has an over-saturated housing sector with about 80 per cent of the urban share of housing stock nationwide.

Aside own-building, the role of private real estate developers in recent times has also boosted the supply of houses to meet the housing stock deficit in the country. Under the umbrella of the Ghana Real Estate Developers Association, private real estate developers have constructed over 10,954 new homes since the formation of the association in 1988.

For instance, value of land at a prime location such as East Legon ranges between $40,000 and $60,000 per residential plot and serviced[11] plots in Tema range between $15,000 and $18,000. In Kumasi, the second largest city, urban land prices range from $20,000 to $40,000 for un-serviced lands close to major road networks (Mahama, 2004).

Table 3: Housing Units Provided By Some Selected Real Estate Developers

	2000	2001	2002	2003	2004	2005	2006
Regimanuel Gray Ltd	105	170	180	160	150	155	126
NTHC Properties Ltd	40	45	12	20	22	70	42
Trasacco Estates Development Co. Ltd	--	18	27	20	20	20	36
State Housing Co.Ltd-Takoradi	15	20	20	25	30	30	30
Lakeside Estate	--	--	6	10	20	63	54
Devtraco Ltd	10	14	20	22	32	40	46
Salem Investment Ltd	--	3	6	6	15	30	20
Flexcon Ltd	5	5	10		5	4	10
Civil Masters Co.Ltd	4	4	3	8	6	8	10

Source: Survey Result, March 2007

Anecdotal evidence suggests that it takes between 5 and 15 years for an individual household to build a house. This time frame increases construction costs particularly in an unstable macroeconomic environment. Funds subsequently get tied into these uncompleted projects which could otherwise have been channeled effectively to other productive ventures. The choice of mortgaging or building is therefore crucial in developing a sound housing market in Ghana.

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[11] *Serviced plots are well demarcated areas with access to good roads, water, electricity etc.*

Chart 5: Shares of Houses Built by Selected Real Estate Developers (2000 – 2006)
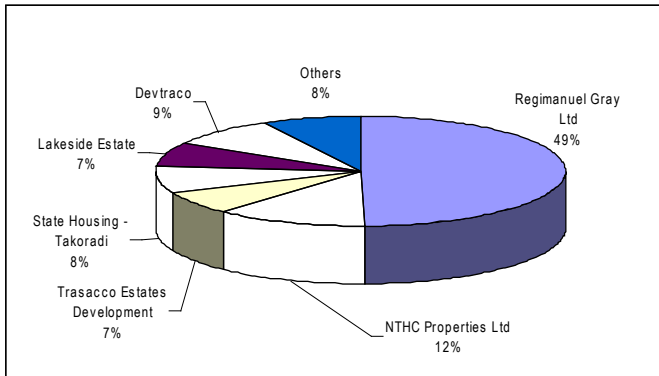
Source: Bank of Ghana

According to the survey results, Regimanuel Gray Ltd. is the market leader in the provision of real estate in Ghana. The company contributed almost 50 per cent of the total houses (2,107) built by real estate developers during the past 6 years. This is followed by NTHC properties with 12 per cent. (See Chart 5)

Although these houses are provided on a mortgage basis to households and individuals, patronage is often skewed in favour of high-income earners due to high cost of buying or mortgaging. Clearly, the high cost of housing is caused by price of land, cost of access to utilities such as roads, water and electricity on such lands, building costs etc. Land is particularly expensive in the major cities of the country.

4. A MODEL MORTGAGE MARKET

Mortgage is a legal document that pledges a property to the lender as security for payment of a debt. Instead of mortgages, some quarters use First Trust Deeds. Like any other markets, the mortgage market has two main primary players; the Mortgagor (the borrower on the demand side) in a mortgage transaction who pledges property as security for a debt and the Mortgagee (the lender on the supply side) who offers the loan.

The secondary players in the market, mostly on the supply side, include:

- Mortgage Bankers (generally assumed to originate and fund their own loans, which are then sold on the secondary market);

- Mortgage Brokers (that originate loans, then place those loans with other lending institutions with whom they usually have pre-established relationships);

- Mortgage Insurance Companies (providing insurance to cover the lender against some of the losses incurred as a result of a default on a home loan); and

- Mortgage Regulatory Institution (a legal body providing the legal framework for the enforcement of laws of contract and standard of practices, including procedures for foreclosures etc.)

A fully developed mortgage industry has two main markets. The Primary Mortgage Market (PMM) where transactions between companies that originate and service mortgage loans (banks, savings & loans, credit union, mortgage bankers, institutional lenders) are effected. Then, the Secondary Mortgage Market (SMM), where existing mortgages are bought and sold. These markets are inter-twined and are affected by both domestic and foreign monetary developments. A well functioning mortgage industry has the primary function of increasing funding for housing at competitive cost and pricing.

It is noteworthy to emphasize that, a successful development of a vibrant mortgage market depends on the existence of certain fundamentals: a stable macroeconomic environment which attracts external funds, availability of long-term finance, an efficient regulatory framework that ensures a secure and transparent land title, effective delivery system, capacity to ensure repayment and foreclosures. Like all prices, any factors which affect demand or supply will affect the price and the overall development of the markets. The case for Ghana is considered in the next section.

4.1   MORTGAGE MARKET DEVELOPMENT IN GHANA

As discussed in the previous section, housing is very important to the social and economic fabric of a nation, hence the need to have insight into the industry that produces and manages the development of housing in the economy. Experiences from developed countries indicate that the mortgage industry is the most capable and superior financier of housing needs of a people.

Chart 6: Mortgages Outstanding as ratio of Total DMBs Credit (%)
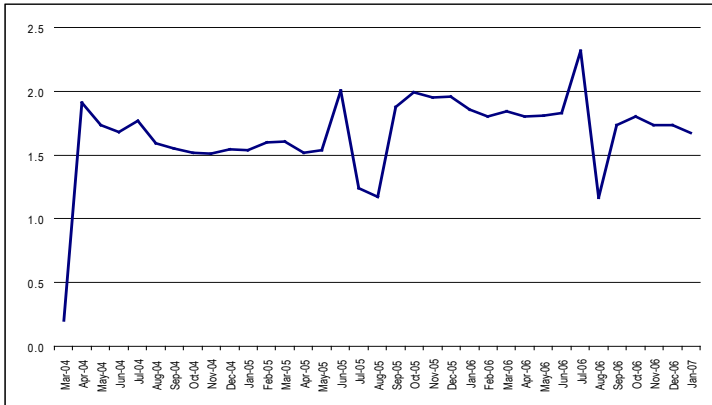
Source: Bank of Ghana

The ratio of Mortgage Debt Outstanding (MDO) to Gross Domestic Product (GDP) for any economy is an important proxy for measuring mortgage market development. Ghana has indeed achieved some moderate improvement in the mortgage market over the past three years as mortgage debt outstanding grew from 2.5 per cent in 2004 to 3.9 per cent in 2006. (See Chart 6). Even though this improvement is significant when compared to the less than 0.1 per cent of GDP for Russia for example, it still falls short by a significant margin in comparison with the range of 7-15 per cent in most other middle-income countries.

Chart 7: Outstanding Mortgage Loans (¢'bn)
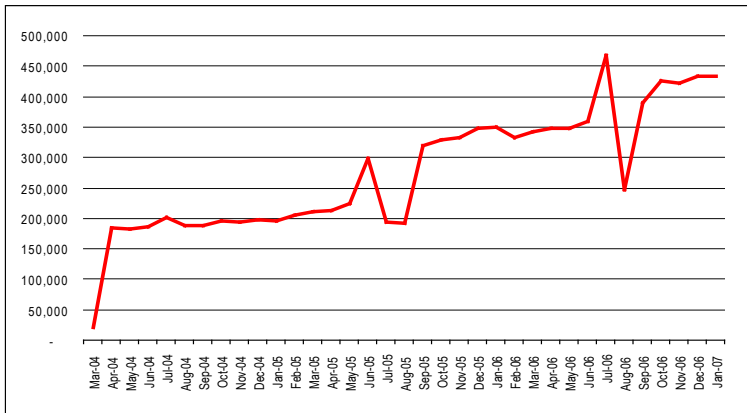
Source: Bank of Ghana

4.2   MORTGAGE FINANCING IN GHANA

Ghana has a checkered history of mortgage financing with several but un-sustained methods of housing finance. Financial institutions such as Social Security and National Insurance Trust (SSNIT), State Insurance Corporation (SIC), the defunct Bank for Housing and Construction (BHC), Social Security Bank (now SG-SSB Bank), mortgage institutions notably, Home Finance Company and First Ghana Building Society (FGBS) have at one point offered mortgage facilities to the working class of the population. Their mortgage activities were hampered by relatively high costs of borrowing and therefore their combined impact on the housing industry was limited, benefiting only middle and higher income groups.   With the exception of the Home Finance Company (currently HFC Bank) and the FGBS, the other institutions are no more participants in the mortgage financing industry.

Chart 8: A Model Mortgage Finance Industry

Household Borrower

Lending Institution   Financial Advisor/Mortgage Broker

Securitization Vehicle selling Mortgage Backed Securities   Retail Deposits with a Mortgage Lender   Other Retail Savings   Global Capital and Money Markets

Domestic Savers   Pension Funds Life Insurance Companies Unit Trusts   Overseas Savers
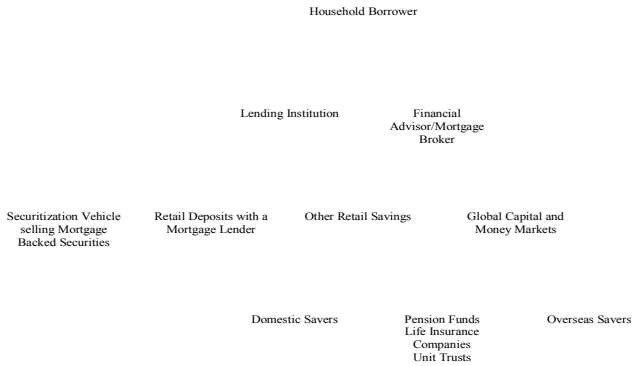
Only few banks in Ghana offer mortgages and often their main clientele are high net worth customers. Thus, the dominant housing finance institution in Ghana presently is the HFC.[11] This company has provided a wide range of mortgage facilities on a sustained basis to Ghanaians since its establishment under the Mortgage Home Finance Law (PNDCL 329). The Home Finance Company (HFC) under the Urban II Project[12] was to implement and manage the housing finance components of the Housing Sector Reform, raising funds for and providing mortgage finance services.

Funded by the Government of Ghana, Merchant Bank and the Social Security and National Insurance Trust (SSNIT), the HFC operated in the secondary market acting as the liquidating institution for the participating financial institutions.

[11] *A second mortgage finance company, the Ghana Home Loans has just been established. It is expected that this development will introduce more competition and dynamism into the mortgage finance industry.*

12 Project agreement between International Development Association (IDA) and the HFC, Dec. 1990

It was envisaged that their activities will jumpstart a vibrant primary housing finance market. However, unattractive commission charges to participating financial institutions and stiff competition from high yielding government paper limited the achievement of this objective. The situation was further aggravated by the introduction of indexed mortgages which was necessitated by concerns about risk and affordability due to high inflation and currency instability.

HFC was subsequently moved to the primary house-financing market as a mortgage company, offering a range of services to address various levels of risk associated with the prevailing macroeconomic and financial conditions in the country. Thus, over the years, the mortgage market has been re-engineered by HFC in the areas of origination, servicing and management.

Table 5: Mortgage Portfolio of HFC

	No. of Mortgagors	Value of Mortgages (¢ 'billions)
2001	2402	192.0
2002	2174	196.5
2003	2121	198.9
2004	1768	194.7
2005	1575	193.5
2006	1595	260.2

Source: Home Finance Company, 2007

The status of HFC has since changed to a universal bank –HFC Bank– offering commercial banking, investment banking and mortgage banking services. Thus, mortgage banking has become a segment of the banks' activities. The Bank currently operates mortgage schemes for home purchasing, uncompleted housing,

home improvement, residential property finance and the non-resident Ghanaians scheme. At the end of 2001, HFCs' mortgages outstanding stood at 3,639 mortgagees at a value of $44.2 million. Nevertheless, out of the 65 per cent formal sector housing delivery, only 0.8 per cent was acquired through mortgage.

In general, Ghanaians have not been active participants in the mortgage financing market and three major reasons associated with the terms and conditions of the mortgages account for this stance. First, potential mortgagors consider high commission fees of 1.5 per cent per annum as punitive although the beneficiary bears only 10 per cent default risk. Second, issues of risk and affordability made the introduction of indexed mortgages unacceptable by both existing and potential mortgages. Last but not the least, is the high prices of houses offered by real estate developers.

Table 6: Typical House Prices in Accra

Type of House	Approximate Floor area (m2)	Average Price in US Dollars	Cedi Equivalent
1 Bedroom (semi-detached, expandable)	76	17,500	161,000,000
2 Bedroom (semi-detached, non–expandable)	82	22,000	202,400,000
2 Bedroom (semi-detached, non–expandable)	96	25,500	234,600,000
3 Bedroom (semi-detached, expandable)	120	32,000	294,400,000
3 Bedroom (semi-detached, expandable)	140	36,000	331,200,000

Source: Field Survey, March 2007

Housing units provided on the open market are rather expensive for the average Ghanaian. Quoted mostly in foreign currencies to avoid risks associated with exchange rate movements, the cedi equivalent of these houses could increase daily in absolute terms

depending on the going exchange rate. As a result, the housing market appears tilted in favour of non-resident Ghanaians and foreigners whose incomes are denominated or indexed in foreign currencies. As a result, a large segment of the population is effectively excluded from access to housing properties built by real estate developers.

4.3   FACTORS AFFECTING THE DEVELOPMENT OF A VIBRANT MORTGAGE MARKET IN GHANA

Informal financing approach to the provision of housing has prevailed and dominated the economy of Ghana since independence. Efforts to institutionalize the system of financing housing have been limited by either an unstable macroeconomic environment or a weak legal and regulatory environment. For instance, the First Ghana Building Society (FGBS), Bank for Housing and Constructions (BHC) and Social Security Bank were established to develop formal financing alternatives for housing. However, they made little or no impact in the mortgage industry primarily due to the absence of long-term financing opportunities necessary for the development of a well functioning mortgage market.

Indeed, an efficient and sustainable mortgage industry thrives on activities in the secondary mortgage market where mortgage-backed securities (MBS) are traded. Such a system links investors, housing suppliers and house buyers (households) in a sustainable housing delivery framework. The reasons for the lack of development of this framework in Ghana can be attributed to both supply side factors on one hand; and demand side factors on the other.

Supply Side Factors

One important factor that affects the price of mortgages, and thus mortgage supply is inflation and exchange rate instability. In the absence of appropriate instruments, lenders risk loss in terms of the value of regular repayments. For this reason, anticipated inflation affects the nominal interest rate charged, leading to high quoted repayments and thus the front-loading of payments to compensate for loss in purchasing power over time. Even where inflation is unanticipated in a risky environment, real interest rates may still increase due to high-risk premium. Furthermore, the uncertainty created by the persistent instability of a currency due to unstable inflation hinders access to external long-term finance for mortgage lending. A history of losses by institutions in the past can also increase the cost of external long-term funding, making short term domestic funding as the only available funding to lend long. These together increase the cost and reduce the availability of mortgage funding in a market. Until recently, the Ghanaian economy has been characterized by regular increases in the level and also volatility of inflation, accompanied by persistent swings in the value of the cedi against the major trading currencies on the foreign exchange market.

Another factor that has limited the development of the Ghanaian mortgage market is the legal framework within which lending operates. As mentioned earlier, an efficient mortgage market requires a legislative framework that ensures smooth completion of property transactions and foreclosures. Unfortunately, the country's legislative system has been characterized by long delays of procedures in the law courts. The main underlying factor that relate to mortgage has to do with lack of secure and transparent titled lands, increasing the risk of mortgage lending and the consequential reduction in the granting of mortgage loans. As noted by Gambrah (2001) the backlog

of land title applications perpetuates multiple sale of land with the effect that the land market cannot operate effectively to either enable the development of a formal market for mortgage or to act as security for mortgage finance.

Demand Side Factors

Several factors affect the availability of potential mortgagors in the country. Amongst these are low income levels which have resulted in high mortgage payment-to-income ratio for many loan applicants, thus pricing them out of the market. Additionally, estate developers quote prices in foreign exchange primarily as a hedge against currency depreciation which also served as a disincentive to demand for mortgage. Since mortgagors are required to make payments in local currencies, this often results in very high costs of repayment. Indeed, the pricing out effect is observed most in unstable economic periods when high inflation and volatile exchange rate movements prevail. Also, cultural and societal norms, which often create apprehensions about the use of loans or "debts" to contruct one's residential property.

Many studies have shown that most housing and other landed property in Ghana are not properly registered; and hence transfer of title becomes impossible. This is what is referred to as "dead capital" by De Soto (2000)[13], that many possessions in developing countries are poorly documented and thus cannot be readily turned into capital, cannot be used as collateral nor be traded outside the domestic market.

[13] De Soto, H. (2000): "The Mystery of Capital, Why Capitalism Triumphs in the West and Fails Everywhere Else." Black Swan.

5. SURVEY OF HOUSE PROVIDERS AND MORTGAGE PROVIDERS

A survey on estate developers was conducted on the members of the Ghana Real Estate Developers Association (GREDA) in the Greater Accra, Ashanti, Central and Western Regions to sample respondent views on some important issues relating to the development of the housing market in Ghana, and ascertain the underlying causes of the sustained rises in property prices in recent times. Both interview schedules and questionnaires were used as survey instruments. In all, a total of twenty-two (22) active members out of the total number of registered GREDA property developers[14] in the selected regions. (See Appendix for sampled list) The study did not include non-registered members of GREDA. The findings from the field survey are summarized under the following sub-headings:

5.1   THE OPERATIONAL BACKGROUND OF RESPONDENTS

According to GREDA, the largest number of registered property developers in the country is located in the Greater Accra Region, particularly the Accra and Tema Metropolitan Areas. These constitute not less than 70 per cent of the total number of developers in the country. Table 7 provides the regional distribution of the respondents and the respective years of operation. Out of the 21 sampled developers, more than half of the respondents were located in the Greater Accra Region, followed by Ashanti, Western and Central respectively.

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[14]*Most of the registered members were not in operation and others provided no response*

Table 7: Distribution and Length of Operation of the Respondents

Region	Number of Years in operation				
	1-10years	11-20years	> 20 years	Total	%
Western	1	--	1	2	9.5
Central	2	--	--	2	9.5
Ashanti	2	3	--	5	23.8
Greater -Accra	5	4	3	12	57.1
Total	10	7	4	21	100

Source: Field survey, March 2007

The same distributional trend applies to the years of experience of the respondents. The greater number of experienced developers in the country is located in the capital than all other regions. In general, however, the survey showed that most of the respondent real estate developers have been in operation six years and more.

Table 8: Type of Housing Units Produced by the Respondents

Type of Units	Number of Developers	% of Total Developers
Semi-Detached	14	63.6
Standard Detached	16	72.7
Flats	4	18.2
Luxury houses (detached)	1	4.5
Stores and Offices	19	86.4
Student hostels	1	4.5
NOTE: Percentages do not add to 100 due to multiple responses by estate developers		

Source: Field survey, March 2007

The survey results also indicate that the type of housing units developed in the country includes semi-detached and detached residential homes, condominiums and others such as student hostels and luxury holiday homes. Table 8 gives a breakdown of types of housing units. Only a single respondent (4.5%) indicated that it produces luxury detached housing units. Majority of developers in the market produce semi-detached (63.6%), standard detached (72.7%) or both. It is also worthy to note that 86.4 per cent of the respondents are engaged in the production of units for stores and offices whereas little interest is shown in the production of accommodation for students.

5.2 THE PRICE STRUCTURE OF HOUSING UNITS

The study shows that a basic characteristic of the price structure of real estate properties in Ghana is the quotations in foreign currency, notably the US dollar despite the stability of the domestic currency over the last five years. Table 9 shows the structure of prices for different housing units. Most semi-detached houses cost between $30,000 and $90,000 while detached houses are priced between $50,000 and $110,000. Clearly, these are prices over and above the reach of the ordinary Ghanaian salaried worker.

Table 9: Price Structure of Housing Units in Ghana

	Semi-detached			Detached			Flats	
Price Range	Frequency	Percent	Price Range	Frequency	Percent	Price Range	Frequency	Percent
below $30,000	1	4.5	$40,000–$70,000	6	27.3	Below $31,000	1	4.5
$30,000–$50,000	8	36.4	$71,000–$90,000	3	13.6	$31,000–$40,000	2	9.1
$51,000–$70,000	4	18.2	$91,000–$110,000	1	4.5	above $50,000	1	4.5
$71,000–$90,000	1	4.5	above $110,000	6	27.3	$100,000	1	4.5
Total	22	100		22	100		22	100

Source: Field survey, March 2007

On the causes of persistent house prices, majority of respondents (19 out of the 22) cited high cost of building raw materials (about 86% of the respondents). This is followed by high cost of land as second highest reason behind appreciable increases in the house prices in Ghana, which makes it impossible for the poor to afford these facilities. Table 10 shows the other related causes of increasing house prices in the country.

Table 10: Major Causes of Persistent House Price Increases

	Frequency	Per cent
Cost of raw materials	19	86.4
High labour costs	6	27.3
High cost of land	11	50.0
High interest rates	4	18.2
Unavailability of land	3	13.6
Inefficient Technology	1	4.5
NOTE: Percentages do not add to 100 due to multiple responses by estate developers		

Source: Field survey, March 2007

The housing survey also revealed that domestic interest rate trends affect activities of the sector directly since most housing projects are normally financed partially by bank loans from the domestic financial institutions. The high cost of loans impacts negatively on housing projects, which indirectly feeds into the final price of houses in the country (see Table 11).

Table 11: Effect of Domestic Interest Rate

	Frequency	Per cent
Strongly negative effect	2	9.1
Negative effect	13	59.1
Missing	1	31.8
Total	22	100

Source: Field survey, March 2007

5.3   EFFECTS OF EXTERNAL MACROECONOMIC FACTORS ON THE HOUSING MARKET

The survey results suggest that the clientele base of the real estate industry in Ghana is rather broad based and includes categories such as resident Ghanaians, resident non-Ghanaians, non-resident Ghanaians and non-resident non-Ghanaians. Resident Ghanaians were cited by most of the developers as their main clients. The survey results indicates that remittance plays a major role in the housing market since most Ghanaians living abroad and non-resident-non Ghanaians alike normally transfer funds either directly or indirectly to agents and real estate developers for the purposes of purchasing houses in Ghana (see Table 12).

Table 12: Distribution of Clientele Base

	Frequency	Per cent
Resident Ghanaians	19	86.4
Resident non-Ghanaians	10	45.5
Non-resident Ghanaians	15	68.2
Non-resident Non-Ghanaian	5	22.7
Others (Institutions)	2	9.1
NOTE: Percentages do not add to 100 due to multiple responses by estate developers		

Source: Field survey, March 2007

On impact of foreign interest rate, Table 12 indicates that 13
respondents out of 22 real estate developers asserted that
foreign interest rate affects their operations negatively, while 2
respondents out of 22 also intimated that the impact of foreign
interest rate on operational cost is very strong. These suggest
that external monetary conditions impact directly on the housing
market in Ghana through the movements in the foreign exchange
rate.

Table 13: Effect of Foreign Interest Rate

	Frequency	Per cent
Strongly negative effect	2	9.1
Negative effect	13	59.1
Missing	7	31.8
Total	22	100

Source: Field survey, March 2007

5.4 CHALLENGES FACING THE REAL ESTATE MARKET IN GHANA

5.4.1 SOURCE OF FINANCING

The survey showed that real estate developers finance their housing projects from a wide range of sources. Due to the multiplicity of responses, most respondents reported a dominant source of finance and a less dominant source. Table 14 indicates that most housing projects embarked by real estate developers in Ghana were self-financed, representing about 72.7 per cent of the entire finance options available to the developers. This development is not encouraging at a time when efforts are being made to bridge the housing deficits gap the country is currently confronted with.

Additionally, some significant numbers of real estate developers depend on loans from domestic banks to partially finance some of their housing projects. Only 2 respondents out of 22 developers made use of loans from foreign sources. It is also evident that only 4 respondents out of the 22 made use of mortgage financing arrangements. Again, this might suggest the scope for developing the mortgage finance industry in the country to help boost housing delivery.

Table 14: Types of Finances

	Frequency	Per cent (%) of Respondents
Bank Loan (Domestic)	8	36.4
Bank Loan (Foreign)	2	9.1
Government Guarantee	1	4.5
Self Financing	16	72.7
Mortgage Financing	4	18.2
Client Deposit	4	18.2
Loans by Directors	1	4.5
Credit from Suppliers	1	4.5
NOTE: Percentages do not add to 100 due to multiple responses by estate developers		

Source: Field survey, March 2007

5.4.2 STRUCTURAL RIGIDITIES AND PRICES OF INPUTS

According to the respondents, the main challenges facing the housing industry in Ghana include (i) high cost of building inputs, (ii) inaccessibility of credit, (iii) poor land tenure system, (iv) persistent land litigation, (v) weak legal system, (vi) lack of infrastructure and, (vii) high labour cost (See Table 15). The results suggest that cost of inputs and access to domestic credit remains key challenges facing the housing sector in Ghana.

This is followed by inadequate access to land by investors within the sector against the backdrop of poor land tenure system and weak legal framework. Most of the respondents stated that poor infrastructural developments around the country inhibits housing development in the country since most developers bear the entire cost of infrastructure within the project area, which according to them eventually feeds into the final house prices, thus making them unaffordable to the low-income households.

Table 15: Some Key Challenges facing the Housing Sector

	Frequency	Per cent (%) of Respondents
Land Litigation	7	31.8
Land Tenure/access to land	11	50.0
Cost of inputs	12	54.5
Access to Credit	12	54.5
Interest Rates	1	4.5
Cost of labour	3	13.6
Infrastructure	5	22.7
Legal Framework	6	27.3
NOTE: Percentages do not add to 100 due to multiple responses by estate developers		

Source: Field survey, March 2007

5.5 KEY MESSAGES BY REAL ESTATE DEVELOPERS AND MORTGAGE FINANCIERS ON THE CHALLENGES FACING THE HOUSING SECTOR

Various stakeholders in the housing industry proposed recommendations that could promote and deepen the housing industry in Ghana. These include:

i. A strong legal and regulatory environment for the housing sector. This will streamline current land administration systems, procedures, and all sector players and provide the framework for a market-based housing sector in Ghana.

ii. Establishment of land courts to handle and clear the huge backlogs of land-related cases in the courts which are inimical to the housing industry.

iii. Land banks should be created by government for estate developers to put up affordable housing units to the populace since the high price of land acquisition affects prices of their products.

iv. Government should open up the cement market by breaking the monopoly of GHACEM for other investors to participate or allow importation of cement.

v. Government should subsidize cost of infrastructure to developing sites which would help reduce the final prices of houses in the long run.

6. CONCLUSION AND POLICY RECOMMENDATIONS

Shelter is a basic human need and operations that promote a housing sector capable of supplying adequate shelter to the population are fundamental goals of government's social development strategy. Thus, well-designed policies supporting the production and consumption of housing services have significant impact on development. Not only do they promote the expansion of the construction industry, they increase the welfare of the population, particularly the poor, by improving living conditions and expanding their physical assets.

Empirical evidence on the housing sector suggests that governments that pursue housing policies based on the "enabling markets approach" have better results than those that pursue traditional policies based on direct public sector supply and financing of houses for low-income families. This 'enabling markets approach' relies on the private sector as the main supplier of houses and issuer of long-term financing for households of all income levels, with the government playing a role as regulator and facilitator of housing markets. The approach minimizes the direct influence of government in direct construction and financing of houses, and rather promotes government interventions on the development of private housing financing, the facilitation of land subdivision for residential uses, the improvement of the construction industry and the support of affordable housing solutions for low-income households.

Ghana's housing sector remains undeveloped and faces myriads of problems such as land acquisition, over-priced houses by private sector developers which exclude ordinary workers from owning decent houses, prolonged land title and registration processes, lack of access to credit and so on. Our survey has shown that although

real estate developers are performing a major role to minimize Ghana's huge housing deficit, majority of ordinary workers cannot afford the houses they build due to low-levels of income. Thus, remittances are playing a significant role in pushing the housing sector forward.

Government has in the past formulated direct intervention policies directed at providing affordable housing for the populace. These however, did not yield the needed results, neither did it provide an impetus for the sector's development due to prevalence of adverse and unstable macroeconomic environment at the time. Barring all these, Ghana currently stands at the threshold to revamp the sector towards a vibrant and sustainable housing industry by taking advantage of the current stable macroeconomic environment. In this vein, we recommend the following policies for the housing sector in Ghana.

- A well-defined and integrated system of housing finance is needed to fund the construction of new structures and to finance the trading of existing properties.

- A strong legal and regulatory framework which comprises consistent and holistic set of laws is needed (in areas such as property rights, collateral, foreclosure etc) for the housing sector. This calls for an amendment of the Mortgages Decree (1972) and the Home Mortgage Act, 1993. Also, efforts at enhancing land administration must be intensified.

- Alternative strategies to mortgage financing that will benefit low to middle income earners and increase their access to affordable housing, also needs to be considered.

[15] We take note of efforts underway in this regard. In particular, the IFC in collaborations with the Financial Sector Strategic Plan (FINSSP) Secretariat have commissioned a review of the legal framework.