Property Crowd-funding, an Alternative to Housing Finance

Business | 2018-08-03

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THE human right to housing is recognised in the Universal Declaration of Human Rights in Article 25: 'Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and the necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.'

The right to housing is further enshrined in the African Charter on Human and People's Rights. All this makes a house an indispensable asset for every household. However, due to the high cost of housing, most households have been left with no option than to settle informally, or to rent. Ironically, most tenants rent properties at rates equal to monthly mortgage repayments.

In Namibia, these situations are further worsened by the rural-urban migration, which increases demand for housing in urban areas. The Namibia Statistics Agency's most recent projection for the next 25 years is that the percentage of citizens expected to live in urban areas by 2041 would have grown to 67%, from the current 43%.

Global estimates show that for these families to afford a decent house, to be financed from financial intermediaries, they need to incur other expenses. These include life cover, fire cover, 30% of gross income as instalment, and a good credit rating as a precondition. As such, housing finance is a key part of the housing system, making home ownership possible for some, but impossible for many.

Lack of serviced land has often been identified as one of the most pressing issues in the provision of affordable housing in Namibia. However, a study in 2011 by the Bank of Namibia showed that more than 73% of Namibians do not have access to traditional housing finance offered by financial institutions. Various reports have indicated that the largest backlog of housing in Namibia is in the low-income sector, which group does not qualify for traditional housing funding due to a lack of collateral and their low-income base. Currently in Namibia, financial institutions also do not have consistent strategies to support housing finance for the low-income groups. A study by the Centre for Affordable Housing Finance in Africa revealed that only those earning above N$10 000 per month may qualify for a mortgage bond. Citizens earning between N$1 500 and N$4 601 may not have access to mortgages.

This calls for an innovative funding mechanism which will also cater for the low-income category. The question, however, is whether the development of an alternative regulated property financing market could be a solution for Namibia. Should Namibia follow modern times' trends in which digital technology is transforming the world of business and society? Various new peer to peer (crowd-funding) online investment vehicles that offer inclusivity have become available to real estate entrepreneurs nowadays. Crowd-funding has been in existence since the 2008 global economic downturn.

This phenomenon is becoming a valuable alternative source of funding for entrepreneurs seeking external and emerging approaches for implementing their ideas, despite not having traditional monetary resources such as banks and venture capital (Sheng et al, 2016). The crowd-funding market is an evolving market that has shown considerable growth over the last few years, and estimates of the global market show that at the end of 2015, the value was over US$145,29 billion. A real estate crowd-funding platform offers financing vehicles which are more inclusive, open, democratic and unbiased than traditional property financing methods (Lakhani, Hutter et al, 2014). Crowd-funding platforms offer property financing opportunities at a faster rate, lower cost and more flexibility than traditional financing options.

There are four major crowd-funding models for regulation, and these are the loan-based crowd-funding model, equity model crowd-funding, donations and reward-based crowd-funding platforms. Loan-based crowd-funding platforms are those on which people lend money to individuals or businesses in the hope of a financial return in the form of interest payments, and a repayment of capital over time.

The lending model is developing quickly into an alternative to bank lending, and in equity/investment-based crowd-funding platforms, people invest in unlisted shares or debt securities issued by individuals, companies or projects. Donations or reward based crowd-funding platforms are where individuals provide money to a company or project for benevolent reasons, or for a non-monetary reward. Non-governmental organisations like a shack dwellers federation can leverage on the wide reach of the internet for funding opportunities.

In platforms like these, developers can upload projects online to attract investors, hopefully in the process to avoid the stringent requirements of traditional commercial banks. The question also becomes: will this have an impact on the overall market as a whole; will it lower prices and astronomical returns in property development projects? And lastly, will it help foster competition in the financial market, and facilitate access to financing options for the excluded?

Since real estate crowd-funding is security-based, it is a regulated activity, and most countries have developed regulatory frameworks to better protect stakeholders. Currently, there is a cloud of uncertainty concerning crowd-funding platforms' regulatory framework, which could fall into a multi-sectoral regime approach, where bits of the platform operations could fall under the regimes of the Bank of Namibia and the Namibian Financial Institutions Supervisory Authority.

According to the World Bank, a crowd-funding regulatory framework should control the transparency, speed, and scale that advances in technology and the internet can deliver to early-stage funding marketplaces, and at the same time provide investor protection. Otherwise, its platforms will become rife with fraud, which could lead to a market collapse. A clear regulatory strategy provides for market development and promotes transparency so much desired by investors who want basic investor protection rights and clear exit strategies.

These platforms have the potential to reduce poverty and provide access to land and property for Africa by efficiently mobilising and matching those requiring financing with those providing investment or donation opportunities.

The success of a crowd-funding platform for financing land and property projects in an African context is further enhanced by the deeply entrenched African culture and traditional set-up in which community-based financing, solidarity and fundraising already existed for some time.

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