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# **Understanding the Challenges in Financing Affordable Housing: Multiple Stakeholder Perspectives from Namibia**

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## ABSTRACT

A stark worldwide reality is that there is a shortage of affordable housing, which is a fundamental economic indicator and key to addressing social policy objectives including poverty reduction. Post-independence, housing in Namibia has been classified a national priority, and as such, the government has passed legislation in favour of committing to housing delivery. The housing demand continues to outstrip the supply, and this is further intensified by urbanisation, high unemployment in the country, high house prices, and a shortage of serviced land. Resultantly, the Namibian government is continually targeting to increase land supply and to incentivise the private sector. This research was centred on the challenges faced by multiple stakeholders that are challenged with financing affordable housing. The stakeholders included a private equity fund manager tasked with a mandate of providing affordable residential property, property developers, and beneficiaries of affordable housing (homeowners). The efforts in support of affordable housing finance are not solely limited to end-user housing finance (e.g. mortgage financing), but additionally include the implementation of the housing value chain, including the land acquisition process, title deed registrations and transfers, and the construction process. The mortgage market is focused on the middle and higher-income market segments. Some financial institutions offer products that do not require down payments. Despite this, many Namibians cannot access loan financing due to affordability, bureaucratic processes, high indebtedness and lack of education about the mortgage process. Therefore, this study undertook to understand the challenges in financing affordable housing covering three main stakeholders: a fund manager, developers and homeowners. This study employed a qualitative approach to analyse data from the fund manager and developers while the sequential explanatory mixed-method approach was used to analyse the data from homeowners.

From the analysis, we identified the challenges pertaining to the fund manager to be the length of land titling and registration process, acquisition of unserviced land from local authorities, the reliance of funding from single investor participants, and end-user financing bureaucracy (mortgage financiers). The challenges faced by the developers were found to be linked to land acquisition, funding acquisition, building plan approvals, as well as other issues such as the high cost of building materials. The homeowner challenges were identified from the quantitative analysis as the lengthy bank application process, associated costs, and lengthy approval processes. From the qualitative analysis, the challenges identified pertained to the lengthy application processes at the financial institutions, the associated costs and lengthy bureaucratic approval processes.

Based on the findings, the research proposed the need for increased engagement and negotiations to lift the stringent conditions placed by local authorities in order to provide serviced land for the purposes of affordable housing; the availing of additional capital to fund managers; the revision of the systems used in order to shorten the time it takes to register and transfer properties; in addition to the lengthy, bureaucratic, and stringent bank requirements and processes.

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## LIST OF ABBREVIATIONS

AHFY	–	Affordable Housing Finance Yearbook
DBN	–	Development Bank of Namibia
DCP	–	Development Capital Portfolio
GIPF	–	Government Institutions Pension Fund
IPPR	–	Institute for Public Policy and Research
MRLGHRD	–	Ministry of Regional and Local Government, Housing and Rural Development
OECD	–	Organization for Economic Co-operation and Development
PIPF	–	Preferred Investment Property Fund
PMS	–	Preferred Management Services
SPV	–	Special Purpose Vehicle

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# CHAPTER 1

## INTRODUCTION

### 1.1. Background of the Study

Access to affordable housing is a fundamental economic indicator and it is key to addressing social policy objectives including reducing poverty. Yet, despite adequate housing being a basic need for citizens, the prospect of owning a decent dwelling is still an unattainable goal for the generality of Africans. Affordable housing is that which “meets the needs of households whose incomes do not adequately grant them access to decent housing in the market without assistance” (Gabone, 2017, p.19). Provision of such housing is a persistent obstacle in developing countries, as many of the citizens are unable to obtain housing at market prices without assistance due to their limited disposable incomes (Ganiyu, Fapohunda & Haldenwag, 2016; Jiboye, 2009; Nedo 2014; Oxford Business Group, 2017; Radebe, 2014). Urbanisation, which is the migration of individuals from rural areas into urban areas and their adaptation thereof, is also a factor adding to the historical affordable housing backlog. Two-thirds of the global population is estimated to be based in urban areas by 2030, of which half are expected to be living in poverty (Asino & Christensen, 2019; Mwilima, Fillipus, & Fleermuys, 2011; Radebe, 2014; IntelliNews, 2017). According to the Institute for Public Policy and Research (IPPR) (2018), in Namibia, overall, the segment of the residents living in urban areas increased from 28 % to 48 % between the years 2011 and 2016.

The government’s role is to “guarantee the process of housing development which is inclusive for all” (The Namibia National Housing Policy, 2009, p.1), and to provide for access to land, services and dwellings to the households which are not traditionally considered as part of the conventional housing market. This stems from as far back as Namibia’s independence in 1990, whereby the country had inherited unequal forms of settlements due to apartheid and the poor housing structures that were designated by the colonial government (IPPR, 2018). Nel (2018) cited that 33% of the households in the capital city of Windhoek are shacks and the inability to meet housing needs is attributable to various factors including financial constraints, the lack or absence of regulations in the housing sector, and the shortage of serviced land which directly affects the affordable housing supply (Dukku, 2018; Zaaruka, Uanguta, & Kadhikwa, 2005). Existing

literature further indicates that addressing the affordable housing challenge is crucial for fostering wealth-creation and this has widespread economic benefits (Cokayne, 2013; Namibia Trade Directory, 2019). In addition to improved welfare and social cohesion, addressing the issue of affordable housing delivers housing as tangible assets which, with due appreciation in their value, provide financial security (collateral guarantee), which can stimulate entrepreneurship, job creation as well as elevated education levels. A report by the Development Bank of Namibia (DBN) (2019) stated that there are overlooked benefits to affordable housing such as the sense of empowerment that is felt by especially first-time home-buyers, a new asset base being built, releasing income for circulation in the economy, and job creation that is formed during the construction phases of the housing projects, as examples; all of these have significant beneficial effects for the economy (Bah, Faye & Geh, 2018; Namibia Trade Directory, 2019). In Namibia, the demand and backlog of affordable housing continues to rise, with Mwilima et al. (2011) reporting that by 2007, the backlog stood at 80 000 houses and the IPPR (2018) foreseeing a maximum demand of approximately 311 000 houses by 2030.

Financial backing is a critical component for advancing housing developments and affordable housing provision (Nedo, 2014). However, Ehlers (2014) states that banks, which are well-placed in short-term assets, are not as well-placed in holding long-term assets on their balance sheets for long periods.

Private equity as an investment concept, and as a financing option, is relatively new to Namibia (Sherbourne, 2018). In an investigation undertaken by the Bank of Namibia in 2005, aimed to draw experiences from other countries to perceive the requirements for a private equity industry to flourish, the researchers found that there is indeed scope in Namibia for private equity activities (Zaaruka et al 2005). Namibia has well-developed life insurance companies and, according to the Bank of Namibia, well-developed pension funds with their balance sheets consisting of long-term liabilities, thus placing the nation in good stead to foster private equity initiatives to grow the domestic economy (Sherbourne, 2018).

Through its unlisted investments (private equity), the Government Institutions Pension Fund (GIPF), embarked on addressing some of the nation's developmental goals, inclusive of social and

further development of infrastructure. They aimed to accomplish this by delivering serviced land and housing for their citizens who are their members (The Namibian, 2019). The involvement of the private sector, which is well-positioned to mobilise resources and expertise to spearhead such projects, has further potential to improve the efficiency and quality of this initiative (Sherbourne, 2018; Zaaruka et al., 2005). The poor (lower-income earners) directly benefit from such initiatives, consequently reducing various burdens from the government. Thus, a collaborative and concerted effort from the public and private sector alike is imperative to addressing issues such as this one which is of a socio-economic nature.

This research recognises that studies in the Namibian context regarding private equity are limited due to the novelty of the concept to the nation. Research has yet, to researcher's knowledge, be conducted on an investigation of the private equity investment (GIPF) on affordable housing and its perceived adequacy in Namibia amidst various challenges faced by fund managers, developers as well as the ultimate beneficiaries (homeowners). This study investigated the challenges in financing affordable housing, focusing on a private equity fund manager (Preferred Management Services and Special Purpose Vehicle - Preferred Investment Property Fund), developers and the associated beneficiaries from an affordable housing project (Osona Village Development) located in Okahandja, Namibia, approximately 20 kilometres from Okahandja southwards and 50 kilometres northwards of Windhoek on the B1 main road.

## **1.2 Statement of Research Problem and Research Question**

Access to adequate and affordable housing is essential to acquire various socio-economic objectives such as reducing poverty and fostering social inclusion (OECD, 2019). The Namibia National Housing Policy (2009) reported that the Namibian housing sector faces difficulties such as a lack of financial support for citizens earning low incomes, the shortage of serviced land, and the development of affordable housing. Housing needs are frequently unmet as the prices are high in comparison to the low incomes earned (Haruna, 2016; OECD, 2019). Disposable income is the primary factor influencing affordability, not availability and the price of housing (Dukku, 2018). The Namibia National Housing Policy (2018) further puts forward that over 70% of Namibians are unable to afford or access conventional home loan facilities from financial institutions or to

access urban land due to poverty and low-income levels. Governments in developing nations should thus be making concerted efforts into catering to the increasing demand of serviced land and for affordable housing.

OECD (2019) posits that there is no “one-size-fits-all” approach to solving the issue of affordable housing; however, different countries are implementing different instruments. Ultimately, access to affordable and decent housing offers stability to vulnerable families and assists in the reduction of homelessness and high crime levels. Asino and Christensen (2018) state that the Namibian National Housing Policy is highlighted as an essential developmental priority in Namibia and that the government’s role is to ensure that people excluded from formal housing have provision of land, housing and services. Existing literature has indicated that the Namibian Government recognises the necessity of addressing affordable housing through cost-cutting and or subsidising land and identifying affordable costs of capital for low-income earners (Africa Housing Finance Yearbook (AHFY), 2018; Ministry of Regional and Local Government, Housing and Rural Development (MRLGHRD), 2009).

In the case of Namibians, affordable housing is categorised within the range of N\$ 300 000 to N\$ 400 000, which is still considered beyond the reach of many (Namibia Trade Directory, 2019). The persistent issue is that most Namibian citizens are unable to afford housing finance unless the government intervenes. In strides to address various key national issues, the GIPF has set out to provide equity funding to investment managers that are mandated to pursue the obstacle of affordable housing in Namibia. The private sector, solely, is unable to address the obstacle mainly due to the magnitude of investment costs as well the long gestation periods associated with investments of this nature (Sherbourne, 2018; Zaaruka et al., 2005). Nedo (2014) and Radebe (2014) through their studies, agree that although there may be a growth of affordable housing projects, the living conditions and availability of amenities which are a necessity and basic need, do not fulfil the norms of human and housing standards.

The present research sought to understand the challenges faced in financing affordable housing – as, essentially, since the adoption of the investment policy of GIPF in 2009 and the subsequent disbursement of funds to fund managers to fulfil the affordable housing mandate, no study has

been centred on exploring the influence of such investments on the beneficiaries' satisfaction regarding their housing and the challenges faced by the focused parties (i.e. the fund manager, developers and the homeowners). In this context, apart from the investment capital required to meet intended objectives, sound management support and expertise are equally necessary by the investor participants and their vendors. In that regard, challenges may also be faced. This study focused on understanding the challenges in financing affordable housing, focusing on the GIPF's private equity investment on affordable housing, concentrating on the Osona Village Development project as a case study, by highlighting the experiences faced by the fund management, contractors/developers and the homeowners as beneficiaries of this project. Therefore, the present research sought to answer the research question: What challenges are experienced in financing affordable housing?

### **1.3 Research Objectives**

The purpose of this study was to understand the challenges faced in financing affordable housing in Namibia. The study aimed to explore the challenges endured by developers, homeowners and fund managers in fulfilling their mandates to address the provision of affordable housing. Therefore, the main objective of the study was:

- To understand the challenges faced in financing affordable housing from a stakeholder's perspective.

### **1.4 Justification of the Study**

The shortage of affordable housing obstacle is one which has been viewed as a political matter and a key challenge for Namibia since independence in 1990. Kothari (2004), states that research is the basis of almost all government policies in an economic system. Research assists in facilitating the decision-making process and this constitutes a critical aspect when allocating a nation's resources. This study can assist the relevant governmental structures and investors to link their economic and social objectives and impacts realised through investments. In addition, this study highlighted to investor participants whether private equity investments are the most appropriate means when looking to confront the issue of affordable housing. It is further hoped to bring to light

to prospective contractors or developers and municipalities, the importance of the insights of the end-users (homeowners/ beneficiaries), which will require channelling and combining concerted efforts. This study may substantially contribute to limited existing literature in the Namibian context and the study may serve as a guide on insights regarding the challenges that funding through private equity has on beneficiaries. Furthermore, this study aims to assist policymakers, housing initiative programme executives and relevant government-led organisations and suitable partners, in order to address the issue of supplying affordable housing, considering quantity and prioritising quality. Policymakers, development planners, housing contractors or developers, and others concerned with housing delivery can refer to the study for awareness and to identify relevant factors or constraints relating to beneficiaries and fund management and use this information in housing planning, budget planning and development.

## **1.5 Organisation of the Study**

This dissertation consists of the following 5 chapters:

### *Chapter 1: Introduction*

This chapter provides an introduction of the study, focusing on the context of examining private equity (GIPF) on affordable housing in Namibia. The chapter further presents the background of the study, problem statement and consequent questions, objectives, as well as the justification of the study.

### *Chapter 2: Literature Review*

This chapter provides an overview of the study and reviews gathered literature to investigate the theories underlying the issues in this study. How the research study fits into and addresses the knowledge gaps identified in the literature is also discussed. Furthermore, Chapter 2 provides the theoretical basis of the affordable housing challenge and private equity funding, and its impacts as a probable means to addressing the nationwide obstacle of affordable housing.

### *Chapter 3: Research Methodology*

Chapter 3 discusses the research approach and methodology employed. The research design, which discusses the sampling and data collection, as well as the analysis of data and validation of results are outlined.

### *Chapter 4: Discussion of Findings*

The analysis of the data collected is presented in Chapter 4. This chapter discusses the results of the data examined in the previous chapter. A description of the data assimilated from the study participants regarding the challenges in financing affordable housing is provided. Additionally, the findings are linked to theoretical and empirical literature to draw substantive conclusions.

### *Chapter 5: Conclusions and Recommendations*

Chapter 5 present the conclusions of the study based on the findings. This chapter concludes and provides recommendations, in addition to avenues for future research.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Introduction

The previous chapter introduced the background and problem statement of the research. Further presented were the research questions and objectives of the research. The present chapter presents definitions of affordable housing and private equity. Namibia's stance in terms of affordable housing and private equity is also brought forth. The GIPF's investment policies as well as the fund managers' investment regulations in Namibia are discussed. Affordable housing as a nationwide crisis and empirical studies with a focus on challenges in financing affordable housing are discussed. In conclusion, a theoretical framework on housing finance is presented.

#### 2.2 Definition of Affordable Housing

Housing is the provision of shelter with accessible infrastructure, services and amenities which cater to people's needs. However, it is not limited to shelter alone (Jiboye 2009; Nedo, 2014). Blauw (1994) defines a house through five functions: shelter as the most basic; facilities; privacy and own territory; social abilities to engage with others; and the symbolic representation of a house.

Countries define affordable housing differently; reviewed literature presents that there is no precise definition for affordable housing; however, it is similar in principle that affordable housing should cater to the needs of those who fall under middle to lower income households. In South Africa, affordable housing refers to households earning incomes between R3 500 and R18 000 per month, who essentially earn more than what is required to qualify for government subsidized low-cost housing and at the same time, earn too little to afford houses in the private sector at market value, or qualify for bond payments (Cokayne, 2013; Nedo, 2014). In Namibia, affordable housing is categorised as being in the range of N\$ 300 000 to N\$ 400 000, which is still considered to be beyond the reach of many Namibian nationals as there are a myriad of low-income earners. The National Planning Commission of Namibia (2019) reported that Namibia was ranked fourth in 2013 on the Knight Frank Global House Price Index in terms of an upward surge in the prices of

housing, thus proving a challenge for individuals who earn low (and low – middle) incomes when they aim to obtain houses. The persistent matter that most Namibian citizens face is that they are unable to afford housing finance unless the government intervenes. The National Planning Commission of Namibia (2019), states that the housing sector's mandate is to provide satisfactory shelter for all, with basic infrastructure for amenities such as roads, electricity, water and sanitation.

### **2.3 Overview of Affordable Housing in Namibia**

Many African economies face similar challenges, with one common obstacle being affordable housing. In 2016, reportedly 25 million Africans required affordable houses (Haruna, 2016). In Namibia, in 2011, approximately 80 000 households were the considered backlog (Gabone, 2017). This figure has since sky-rocketed and the affordable housing provision in Namibia is indeed a developmental drawback. The unavailability of serviced land has been alluded to as one of the key aspects facing the development of adequate and decent housing (Centre of Affordable Housing Finance in Africa Yearbook (CAHF), 2018; Sherbourne, 2019). Although the medium-term budget for 2018 allocated 9,2% of the budget to land and housing, the Namibian government has not established methodological approaches to address the much-needed critical analysis of the housing needs (Asino & Christensen 2018; CAHF, 2018; Mwilima et al., 2011). The housing prices in the Namibian market are constantly rising due to a shortage of serviced land, fuel prices and other related commodity prices, unemployment, and inflation – which are resultant of a persistent economic crisis (National Planning Commission of Namibia, 2019). Nel (2018), states that 63% of Windhoek residents that are on a waiting list for housing earn less than N\$ 3 000 (equivalent to R3000) monthly. Furthermore, the First National Bank Namibia in 2018 reported that 31 613 households (out of 95 202) in Windhoek, the capital city, are shacks, whilst the affordable housing backlog stood at 55 892 houses. The national backlog as at 2013 was nearly 100 000 houses, further expanding to approximately 3700 housing units at an annual rate (Summary of Blueprint on Mass Housing Development Initiative in Namibia, 2013). Workers earning low incomes constitute the largest category of the national housing backlog (Windhoek Observer, 2013).

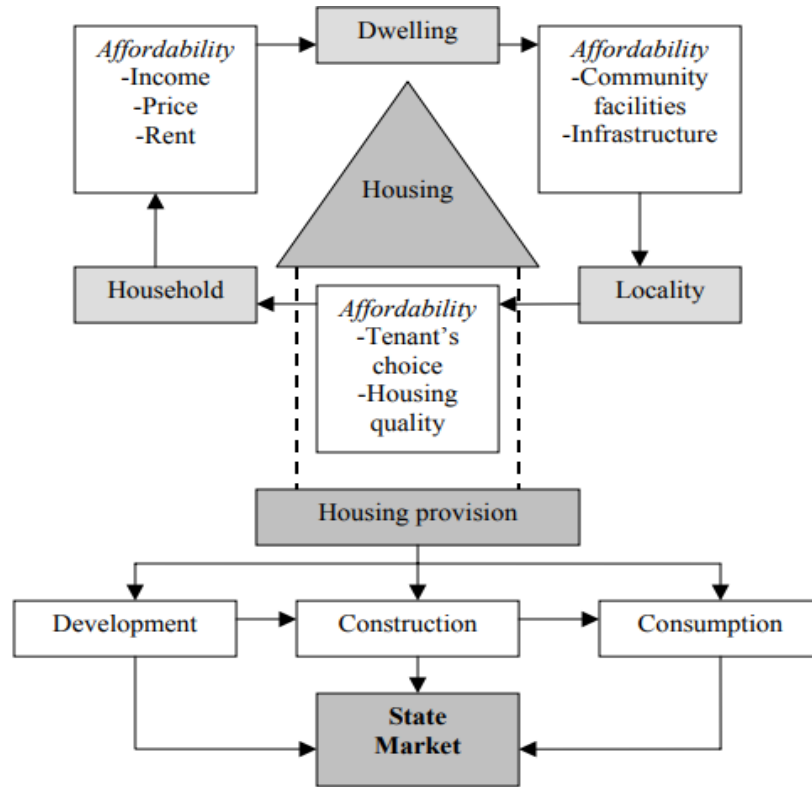
The Namibia Financial Stability Report (2018) conducted by the Bank of Namibia and the regulator, Namibia Financial Institutions Supervisory Authority (Namfisa), indicated that house price inflation in Namibia decelerated by 1,4% from 2016 to 4% at the end on 2017.

The Namibian Government has availed funding to address housing delivery through housing schemes including the Build Together Programme, the National Housing Enterprise (NHE), and the Shack Dwellers Federation of Namibia (SDFN) (Mwilima et al., 2011; Sherbourne 2019). The principal aim of a scheme is to provide a plan for the funding required for constructing, maintaining and renovating or upgrading housing. Studies indicate that affordable housing is a tool to wealth creation and additional hidden benefits; as the asset appreciates in value, it has benefits which roll over into the direct economy activities such as fostering entrepreneurship and job creation (Bah, Faye & Geh, 2018; Cokayne, 2013; Namibia Trade Directory, 2019). Addressing the affordable housing obstacle would give citizens increased and improved access to workplaces, safer environments, and proximity to schools and other amenities for convenience. Namibia Trade Directory (2019) reported that the Chief Executive Officer of the Development Bank of Namibia outlined that there are often overlooked benefits of affordable housing. Although the nature of affordable housing impacts the nature of the real estate and property development industries, a positive outlook should be embraced as the industries which relied on income from a limited number of costly units could achieve greater revenue from constructing several affordable units.

According to the Centre of Affordable Housing Finance in Africa Yearbook (CAHF) (2018), Namibia, in comparison to other Sub-Saharan African counties, has been among the most politically stable since gaining independence in 1990. As such, Namibia has become one of the most attractive investment destinations in the region. Despite this, the housing issue has been on the table since independence. Housing provision which is also indicated as a concept as illustrated by the Figure 1 below, is categorised under the Support to Planning, Infrastructure and Housing Programme, operating within the mandate of the Ministry of Urban and Rural Development, addressing the social progression pillar of the Harambee Prosperity Plan. The Urban and Regional Planning Bill, Bill 13 of 2017, focused on converting the spatial planning sector by presenting an improved scheduling system for accelerating affordable housing delivery as advancement in the regulatory environment (CAHF, 2018). Sherbourne (2018) highlighted four of the main policy

initiatives guiding private equity finance in Namibia, being Vision 2030, the Industrial Policy, the Fourth National Development Plan and the Financial Sector Strategy.

**Figure 1: The components linking housing affordability**



Source: Mostafa, Wong, Hui (2003)

## 2.4 Private Equity and Affordable Housing Provision in Namibia

Capital sources which are long-term in nature are crucial for private equity formation. Private equity finance is traditionally meant to be a critical component of any financial sector; therefore, through existing literature, it has been indicated that viable grounds exist to assume that the requirement for private equity is present in Namibia (Sherbourne, 2018; The Economist, 2003). Acknowledging the necessity of the private equity industry in the growth of their developing economies, many countries have initiated the development of the industry (Cokayne, 2013; Haruna, 2016). Investors in private equity include insurance companies, banks, wealthy

individuals and corporations, and pension funds, such as the GIPF in Namibia. Private equity funds specialise in various investment sectors. Private equity is a considerably new concept in the country, despite the fact that the Development Bank of Namibia reported that it has a strong track record of providing finances for affordable housing, citing in 2019, N\$ 796 million that was approved for projects of that nature, and N\$ 580 million that was approved for land servicing (Namibia Trade Directory, 2019). In addition, in 2014, Nedbank South Africa's Affordable Housing Development Finance Unit expended in excess of R1 billion to affordable developments prioritising sustainable living environments for citizens (Radebe, 2014). End user finance (Mortgage loans, Pension-backed loans and Micro loans); Wholesale finance (Loans to micro lenders and other retail intermediaries, Loans to rental/ social housing companies); and Development loans (Bridging finance or working capital loans to developers) constitute the different products of housing supply (CAHF, 2011).

In the Namibian context, according to Sherbourne (2018) and CAHF (2013), private equity funds assume different forms, namely, capital raised through preference shares, raising funds through an Initial Public Offering, investment capital raised through pension funds, state-owned venture capital funds, direct equity investments by the government, and private wealth and business angels. Each of these models addresses aspects ranging from investor participants, selection of priority investments, exit strategies, fund management incentives and empowerment. Of these, Namibia's private equity businesses primarily depend on pension funds. According to the Summary of Blueprint on Mass Housing Development Initiative in Namibia (2013), housing strategies should address aspects such as promoting capital investments to expedite the process of delivering serviced land, mobilising domestic savings to provide housing finance, providing maintainable housing arrangements by means of collaborated stakeholder engagements, putting forward the use of inventive alternative means of building materials and methods, and strengthening the housing regulatory environment. Affordability objectives can be met by implementing models in which managing stakeholders cost their services in a manner which reduces housing prices, utilising building materials and technologies which are cost effective, government subsidisations and price reductions induced by increasing housing stock beyond demand.

Prior studies have shown that for the private equity to flourish in Namibia, an enabling environment needs to be in place, which they conclude is the case, including strong incentives and institutions, in addition to sound macroeconomic and structural policies. Similarly, a stable macroeconomic environment is essential to the delivery of housing that is deemed affordable (Akeju, 2007; Zaaruka et al., 2005). The financially sound institutions comprising of insurance companies and pension funds (such as GIPF), should thus aid in the growth of the feasible private equity industry, in one such way, through seeking out unlisted companies. In accordance with Regulation 28 of the Pension Funds Act, pension funds, such as GIPF, are required to hold a “minimum of 35 % of their investments in Namibian assets” (GIPF, 2018, p.1). This requirement further stipulates that a maximum of 3.5 % of these investments should be in unlisted investments. This legislature encourages GIPF to invest domestically, therefore ensuring that Namibian savings are directed towards stimulating development. In response to this legislation, GIPF, in 2008, introduced an Investment Policy for Unlisted Investments. The main aim of this policy was to harness a significant impact to the Namibian economy by addressing the needs of the people by way of availing development capital to unlisted sectors indicating high growth prospects. The GIPF set a target to construct 30 % of the 20 000 houses envisioned by the Harambee Prosperity Plan (The Namibian, 2019). Private equity offers the essential capital required to foster growth over the wide-reaching socio-economic environment. The present study contributes to the limited current body of knowledge regarding challenges faced in one such case of the GIPF’s initiatives – being the obstacles endured by the appointed investment manager mandated to provide serviced land for purposes of affordable housing provision and housing development, the Preferred Investment Property Fund, the associated developers and ultimate beneficiaries – the homeowners.

## **2.5 GIPF Unlisted Investments and Policy**

In 1996, the GIPF initiated the Development Capital Portfolio (DCP) whereby investments into various unlisted business ventures, inclusive of start-up businesses were made (Sherbourne, 2018). An amount of N\$ 611 million was committed and disbursed as loans. Between 1996 and 2006, GIPF invested this amount in the DCP projects on 21 companies (The Patriot, 2017). Reasons ranging from poor management of projects to lack of skills were cited in justification of the losses incurred and the portfolio thereby not making a profit. Sherbourne (2018), states that the

opportunity cost with respect to investment opportunities forgone was approximately in excess of N\$ 2.5 billion. Furthermore, impacts of this failed investment initiative continue to have a negative bearing on current private equity initiatives.

The GIPF generally invests in listed equity, property, bonds and money-market instruments as these assist in addressing the pension fund's liabilities. All Africa (2010) reported that the GIPF committed N\$ 1, 8 billion to be disbursed through its new Unlisted Investment Policy, which was developed in 2008, in the wake of the unsuccessful DCP initiative. This new policy represented GIPF's reassessment of its position of promoting Namibian development by way of unlisted investments (private equity) in addition to the potential of unlisted investments providing an alternative asset class in Namibia (Sherbourne, 2018; The Namibian, 2012). In addition to the reasons highlighted for the failure of the DCP, the GIPF committed to no longer directly retailing the funds to entrepreneurs; instead, they would provide funding on a wholesale basis to appointed fund managers, who, in turn, would retail these funds to the entrepreneurs (Sherbourne, 2018; The Namibia, 2012). The GIPF, by regulation, as per the discussion in the following sub-section, is to adhere to Regulation 29, whereby the GIPF is required to invest through the Special Purpose Vehicles (SPVs). In addition, these unlisted fund managers are required to co-invest an amount of a minimum of 1% of the SPV investors' contributed capital.

As an institutional investor, GIPF, as stated in their Responsible Investment Policy, has the long-term duty to act in the best interests of the members, being the beneficiaries. The Namibian (2012) further reported that the new policy originated from a genuine conviction on behalf of the GIPF, to invest its members' savings to promote development in Namibia through the provision of appropriate infrastructure including housing, and for diversification purposes.

Unlisted investments offer above-average risk-adjusted returns relative to traditional asset classes, and although they may have longer gestation periods, they yield attractive returns. The benefits of unlisted investments are often tangible and felt by the beneficiaries and economy at large (As in this case, housing provision) as opposed to listed assets whereby the purchase of assets yields no direct tangible impact. As of 2016, Financial Sector Namibia stated that all the funds of a committed N\$ 3.3 billion and drawn-down N\$2.3 billion, are still in their investing period,

highlighting that returns are likely to be realised when exits are implemented (Windhoek Observer, 2016).

## **2.6 Investment Regulations by Fund Managers in Namibia**

Sherbourne (2018), highlights that private equity finance is a novelty in the Namibian context and consequently, there are limited legal provisions and regulations as is the case with limited regulations in the housing sector (i.e. housing prices and rent prices remain unregulated). Furthermore, there are no impediments to private equity finance presented by the Namibian company law. According to Namfisa (2014), there are aspects to consider when undertaking unlisted investments (private equity) relating to regulation 28 and 29 under the Pension Funds Act of 1956 (Act No.24 of 1956). The regulator outlines that Regulation 28 sets out limitations to which asset classes are to be invested in by pension funds. A limit for unlisted investments is set at 1.75 % minimum and a maximum of 3.5 % of the market value of the fund.

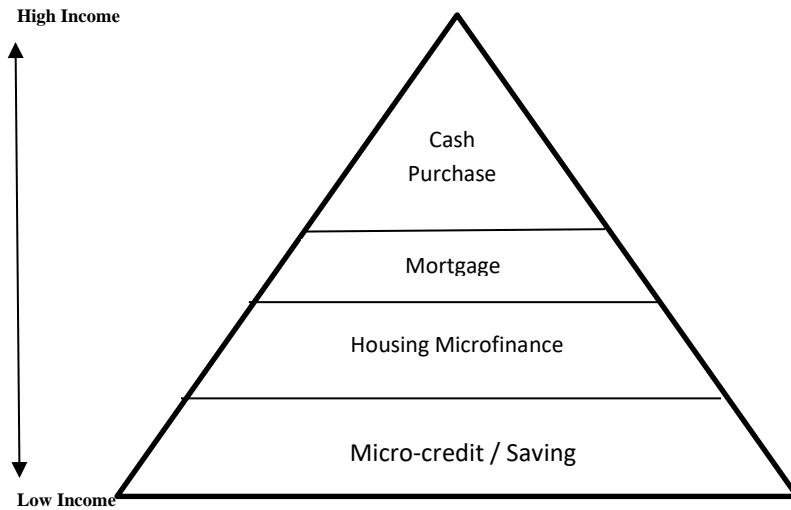
Regulation 29 requires that unlisted investments by pension funds must be conducted through SPVs which is either a private company, a public company or a trust, amongst other requirements subject to Namfisa's approval, such as approval of investment plans (Namfisa, 2014; Sherbourne, 2018). Section 45 further requires the fund manager to co-invest a 1 % minimum of the investor participants' contributed capital. The fund's optimal structure as highlighted by Sherbourne (2018) is that of a bewind trust. This study is based on Preferred Management Services' Preferred Investment Property Trust, a bewind trust, as the SPV. The South African Revenue Services (2019) describes a bewind trust as one whereby the ownership of assets of the trust or property is bestowed in the beneficiaries; however, management and control of property and assets is the responsibility of the trustees. This structure warrants that the GIPF continues to be the definitive proprietor of the underlying investments.

## **2.7 Housing Finance System**

Shirazi, Zulhibri and Ali (2012) state that housing finance systems in developing countries include both lenders from the private sector and institutions managed by governments, such as housing banks or housing funds; conducting their operations by providing (long term) fixed-rate mortgages with interest-rate subsidies - which have negative features such as debt accumulation and lack of transparency regarding associated costs; and having a formal financing system mainly catering to home acquisitions and houses recently constructed. Essentially, the approaches to expand the housing finance system in developing and emerging economies are far behind their broad financial development.

The purpose and need for comprehensive housing finance is for the establishment of well-functioning housing markets. Shirazi et al., (2012) believe that developing countries are heading to a more cohesive system whereby there is a higher reliance on capital markets instead of solely banks. There is prioritisation of providing subsidies to low- and medium-income earners as opposed to expanding public housing, and the provision of access to loans through the private sector for middle-income earners. The housing finance system's general characteristics are illustrated in the following figure (figure 2).

**Figure 2: General characteristics of the housing finance system**



**Source: Shirazi, Zulkhibri & Ali (2012)**

There are certain trends highlighted, especially in the African context, including the aspect that there are an exclusive amount of financing (mortgages) mainly available to high-income earners through a limited number of depository institutions, or these high-income earners often purchase formal housing by means of cash. Other trends depict that middle-income earners often undertake their own construction phases by means of cash and that lower income earners finance their houses in phases by varying informal means such as micro-loans, savings, and loans from the family (Shirazi et al., 2012). To attain a well-established housing finance system, concerted efforts from the private and public sectors are essential in attending to the persistent demand for housing, in addition to an established mortgage market.

## **2.8 Financing Affordable Housing**

Financing affordable housing is not a process which is limited to acquiring a house, but rather an inclusive approach of taking challenges and constraints into consideration. Various theories have been presented to guide the dilemma of financing affordable housing worldwide. Given that the studies in the Namibian context are scanty, some global theories are applied to this research. The first theory underpinning this study is the Stakeholders Theory. This theory, according to Kanjumba, Njuguna and Achoki (2016), looks at the position and effects that parties have on the connection between economic factors and housing funding. Moreover, this theory philosophises

that the union of the stakeholder's varying interests and their need to benefit over time through their collaboration is key. This study concurs with this theory, in that it highlights the importance of understanding the challenges faced by the major stakeholders in considering funding housing development. Essentially, this theory highlights that value should be created for all stakeholders, not only to specified parties – as applicable to the study, value is to be created for pension funds through the fund manager, who will be duly compensated for the developers and the ultimate beneficiaries who are the homeowners.

According to Ndungu (2014), several theories relating to access to affordable housing have been postulated during the 20<sup>th</sup> and 21<sup>st</sup> centuries in the economies characterised as laissez-faire or capitalist. Theories such as the Economic Theory of Housing, the Home Ownership Model Theory, the Human Motivation Theory, and the Efficient Market Hypothesis, as highlighted by Ndungu (2014), are core to this study as stakeholders require housing finance for various purposes such as housing construction (individuals or developers), for paying for housing loans (individuals), and for addressing the shortage of housing for social and/or economic motives (i.e. GIPF and appointed fund managers). The following sub-sections addresses theories related to financing affordable housing, the housing finance system, and the conceptual framework highlighting challenges to affordable housing finance.

### 2.8.1 Housing Economic Theory

Central to economic theory are the functions of demand and supply (Becker, 2017). The CAHF (2011) suggests that housing finance is a means used to compensate for housing, citing the interplay between demand and supply. Ndungu (2014) cites that the demand of housing is the quantity of housing that prospective homeowners are ready to acquire at a specific price. Whilst the supply relates to what developers are willingly going to vend at a particular price. The demand for housing is determined by, among others, interest rates, affordability (ratio of house price to income), the cost of renting, and mortgage availability (Ndungu, 2014; Pettinger, 2017). Whilst the influences of housing supply, among others, include the rates of material for building, the existing housing stock, and significantly, the cost of land.

### 2.8.2 Home Ownership Model Theory

The Home Ownership Model, according to Ndungu (2014), analyses the costs and benefits related to acquiring the house in comparison to the selling price at ownership termination (after which, a worthy asset would exist). Furthermore, the down payment (deposit), the regular instalments, legal costs, among others, comprise the cost aspect. The benefits, among others, include additional savings from the forgone option of renting, and more essential to this study, the pride and satisfaction of home ownership, which is analysed from data collected from homeowners gauging their after-occupancy experiences (Annexure C) – despite the financing challenges. Ndungu (2014), states that this theory assumes that the total investment less the benefits enjoyed during home ownership adding equity gained at ownership termination, is the extra benefit gained by the homeowner, relative to a person who chose the option to rent.

### 2.8.3 Human Motivation Theory

The Human Motivation Theory, better recognised as Maslow's hierarchy of needs (Maslow, 1943), asserts that all humans have a basic set of needs as the first level of the hierarchy (such as housing, shelter, essentially biological and physiological needs), which should be met in order to focus on attaining higher goals such as self-actualisation and self-esteem. This theory was applied to the homeowners of this study in that they wish to fulfil their physiological needs of owning housing. However, the prospect of attaining home ownership is plagued with a myriad of challenges such as finance costs and low income, among other challenges, which dictate the realisation of gains from acquiring a home affordably.

### 2.8.4 Efficient Market Hypothesis

The Efficient Market Hypothesis, according to Clarke, Jandik and Maddelker (2001), is the proposition that prices entirely indicate obtainable information and as such, there would be no means to surplus gains when utilising the information. In this study, the theory was thus applicable in that the (affordable) house prices indicate a perfect depiction of the entirety of accessible information.

### 2.8.5 Conceptual Framework: Challenges to Affordable Housing Finance

The housing finance system is plagued with complexities due to various factors. The Africa Union for Housing Finance (AUHF) (2016) duly states that the efforts in support of housing finance should not only be limited to end-user housing finance such as mortgages, but should additionally encompass the implementation of the housing value chain, including the processes of acquiring land, title deed registrations, and the construction process. The process of transferring of property rights amongst the developers, the homeowners, financiers and other related parties is cumbersome, complicated, costly and time-consuming, as an example. There is thus a necessity for well-structured regulations and procedures. Shirazi et al. (2012) and Erb (2019) note the issues relating to housing finance such as: lack of transparency in ownership and imprecise property rights, lengthy and costly entitlement processes, inefficiencies in the land registration processes, inadequate regulatory frameworks, high transaction costs, lack of credit information, and inadequate or a lack of long-term debt facilities for financing mortgages. Some of these concepts, in addition to other challenges are discussed below:

#### ***2.8.5.1 Land Title Transfer***

Shirazi et al. (2012), state that well-defined and documented property rights are imperative in housing finance. Recording, registering and transferring processes are considered cumbersome and consequently raise costs and time constraints. Furthermore, there may be an absence of coordination and cooperation among relevant departments involved in the registration and title deed transfers, in addition to the aspect of reliance on a manual thus inefficient system. Certain countries incur additional delays and cost overruns when they opt to involve a notary in the registration process. Saudi Arabia is highlighted as ranking first worldwide (Shirazi et al., 2012) whereby it involves two procedures and two days to register a property and to transfer the title; whilst Nigeria, as an African illustration, involves 13 procedures and 82 days to register a property.

#### ***2.8.5.2 Availability of Low Cost Serviced Land***

Land which has not undergone servicing would be suitably priced for affordable housing (Ram & Needham, 2016); however, such land would require substantial investments for land servicing, including the provision for drainage, storm water, sewer services, and electricity connection services. After such investments, the developers would then construct what they deem most

profitable. The study by these authors noted that the developers opined that land prices ought to not be exorbitantly high to the effect that it would influence the quality of the houses. For this study, investments for servicing land were administered by the appointed fund manager, who then facilitates the sales of serviced land to developers.

#### ***2.8.5.3 Cost of Building Material***

There is a lack of control by the developers in the event of an escalation of building and construction costs, especially since before the construction phase, the developers are required to draw up cost estimates, which are subject to alterations due to market fluctuations. This may occur by the time the construction approvals are settled and subsequently this poses a challenge in the development of the affordable housing unit construction.

#### ***2.8.5.4 Construction Approval Process by Relevant Authorities***

Ram and Needham (2016) highlight that there are several building permissions that are required which may have delays which pose challenges to developers. They cite issues such as corruption, in-adequate workforce and bureaucracy by the government officials as well as resistance to change, among others, as some of the challenges.

#### ***2.8.5.5 Lack of Credit and Credit Information***

The lack of credit information poses a challenge in housing finance in that the lenders require this information on the borrowers for determining the risks associated with lending such as default risk. Likewise, borrowers require knowledge of the terms and conditions related to housing finance. Lack of credit may be a dual constraint in that buyers may face this challenge which in turn influences the demand for housing; this is exacerbated by the issue of financial institutions' difficulties in assessing incomes (AUHF, 2016). More so, developers or builders face this constraint in the event of institutional credit not being made available to them at low interest rates.

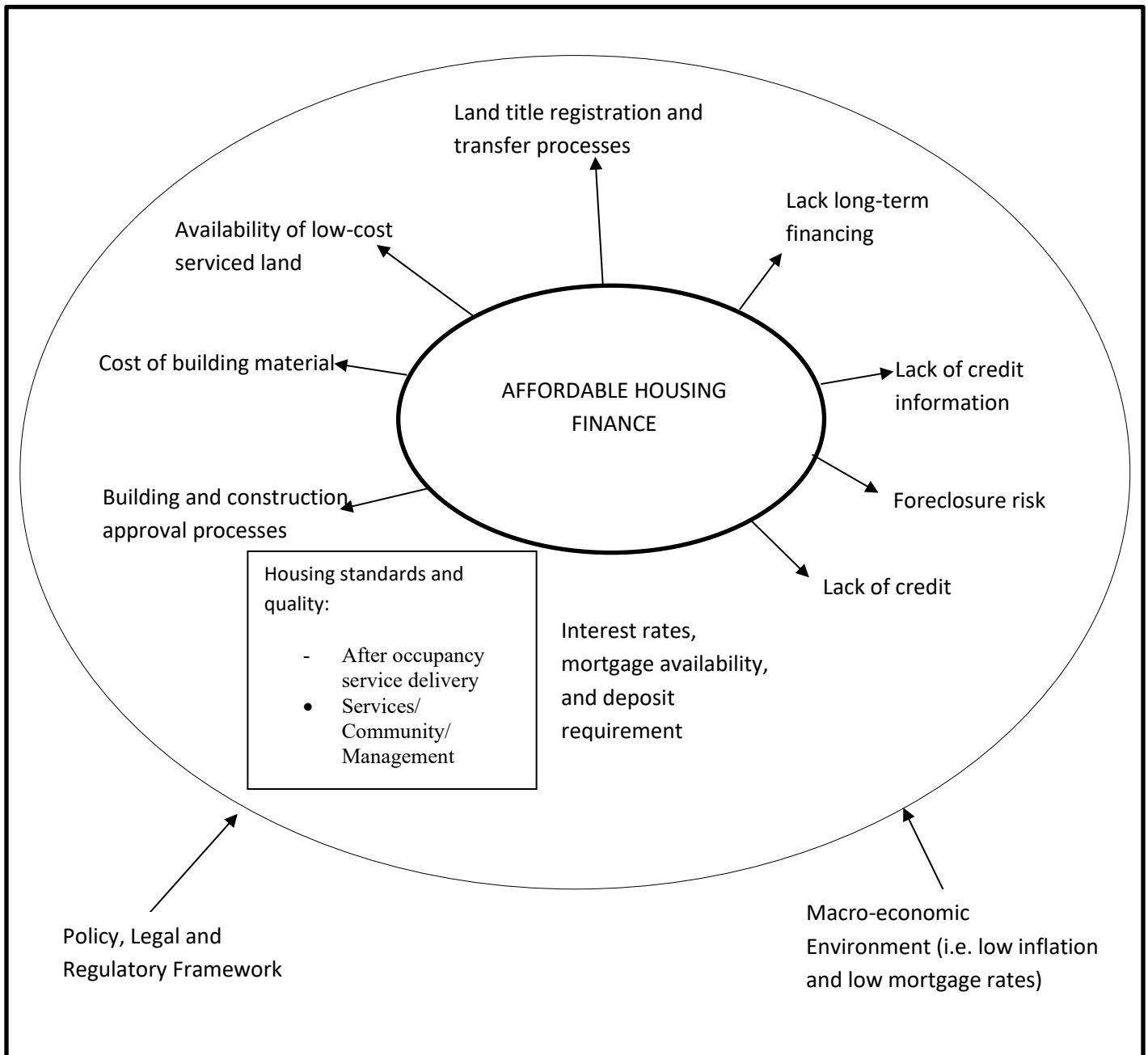
#### ***2.8.5.6 Foreclosure on Property***

The foreclosure challenge is a lengthy and costly process. Shirazi et al. (2012) state that adding to the required credit information by financial institutions, there are also efficient laws relating to foreclosure in the case a borrower defaults, for the development of an effective mortgage market.

#### ***2.8.5.7 Lack of Long-term Funding***

The mortgage market is reportedly inadequately established in most developing countries. AUHF (2016), states that the World Bank Group has taken a keen interest in supporting the establishment of sustainable efficient housing markets by mobilising long-term funding sources in emerging markets. The concern is that there is a lack of availability of financing vehicles, which are long-term in nature, for financing mortgages. To address housing demand, a well-developed mortgage market is required, comprising of banks and specialised institutions. Shirazi et al. (2012) and the International Union for Housing Finance (2009) note that there is a mismatch and related liquidity risk to these institutions derived from the long-term nature of maturity and deposits which have a shorter-termed nature, and there is thus an absenteeism of a desired secondary mortgage market. Implementation and access to long-term financing in the long-term result in lowered interest rates and increased construction. The diagram below depicts the challenges related to affordable housing finance discussed:

**Figure 3: Conceptual Framework, Challenges in Financing Affordable Housing**



**Source: Author**

## **2.9 Empirical Studies on Challenges in Financing Affordable Housing**

There are various funding initiatives and studies which are representative of the efforts in the region, aiming to tackle the issue of challenges to financing affordable housing from different perspectives. In 2013, a research conducted by a University of Cape Town associate professor, reported that affordable housing projects funded by a private equity investor valued at R8 billion, revealed housing to be valuable assets, which, when they further accumulate value, stimulate economic activity (Cokayne, 2013). In 2017, the African Development Bank approved a US\$ 20 million loan for affordable housing in Africa (IntelliNews, 2017); and, Nigeria established a strategy, through the Nigeria Mortgage Refinance Company (NMRC) to provide liquidity and accessibility to financing of affordable housing in the nation (Haruna, 2016).

According to Tomlinson (2007), there are various initiatives aiming to address access to housing finance in Sub-Saharan Africa. There is no “one-size-fits all” method in addressing the affordable housing predicament; this is indicative of the approaches being harnessed by Africa in attempts to solve the issue (The Organisation for Economic Co-operation and Development (OECD), (2019). Oxford Business Groups (2017) reported that in Africa, private capital and investment is rarely focused on providing affordable mass housing, but rather in the commercial real estate sector which is grossly profit-driven. As urbanisation rises in Sub-Saharan Africa, the private sector’s efforts, partnered with their governments, can meet the critical need for housing, in addition to the housing subsidies and allowances that are awarded as employee benefits. These platforms would assist in the transformation of the continent’s housing markets. This would be achieved through the provision of quality, adequate and affordable houses, unemployment reduction, and proving the sustainability of the sector to various stakeholders, inclusive of local developers (Bah, Faye & Geh, 2018; IFC, 2019).

Housing investments are profitable for the economy, though they subject to market failures. Literature on challenges in financing affordable housing agree that available financing is the cornerstone of sustainable housing provision, further citing that the inadequate quantity and quality of housing is resultant of ineffective financing access (Kuma, 2015). Some empirical studies relating to challenges in housing finance also agree that stable macroeconomic environments, in addition to sound financial institutions, are essential to providing affordable housing (Akeju, 2007;

Zaaruka et al., 2005). Ehlers (2014) opposes the idea that lack of available financing is an impediment to addressing infrastructures due to the abundance of funds in world markets matched with low long-term interest rates. On the developers' and homeowners' side, studies provide evidence that the construction and development costs, building material costs, cost of financing, as well as challenges in obtaining land titles are three of the most obstinate aspects hampering operative access to housing finance. In addition, a cited mismatch is identified between formal lenders' (the often risk-averse banks) guaranteeing standards and the borrowers' credentials. Banks are being seen to be only lending to employees with salaries and who have high minimum loan sizes (CAHF, 2013; International Union for Housing Finance, 2009). Commercial banks as financial institutions are largely cognisant of the default-risk posed by low-income earners, and as such, there is a misalignment with regards to the non-existent secondary market adjustment to cater to accessibility of housing finance, particularly to those who earn lower incomes, and those who face difficulties in qualifying for loans or meeting the bank's stringent requirements (Smit, 2003). Approximately 70% of Namibians are unable to access home loans from commercial banks as the means of affordable housing finance because of inadequate or no collateral, as well as not meeting the requirements of being in possession of a title deed (Mwilima et al., 2011)

The Namibian Housing Enterprise concurs with these issues by citing challenges such as lack of serviced land, property rights issues, land tenures and financial resources (CAHF, 2018) as significant contributors to the nationwide crisis. Although studies indicate that opportunities do exist in the Namibian market to pursue private equity, adding to the newness of the concept to the nation, there are limited studies indicating the results of the efforts expended despite the challenges experienced in financing affordable housing in Namibia. Private equity is considered a lengthy initiative as it could take up to a decade to ultimately realise gains or to consider exiting with considerable profits after accounting for all costs. Sherbourne (2018) puts forward that, to date, in Namibia, there has not been any substantial private equity demonstration. The above literature provided motivation to undertake the present study which aimed to form an understanding of the challenges to housing finance using a multi-stakeholder perspective comprising of a private equity fund manager, a developer and homeowners.

## **2.10 Conclusion**

This chapter reviewed literature related to addressing the gap in existing literature which aims to understand the challenges in financing affordable housing in Namibia. It covered definitions of affordable housing and private equity and drew from the existing limited literature from the regional context in addition to the concept of private equity still being a relatively new one to Namibia. Namibia has made noted efforts to promote private equity financing as indicated by the GIPF's unlisted investment initiative and regulations 28 and 29. These efforts are seemingly focused on local investment sources and there is a lack of attention to attract private equity from outside Namibian borders. The literature has indicated that although sound environments for funding may exist for private equity projects focused on housing construction as an example, failures are inherently expected if there is inadequate professional skills and managerial support for the fund managers or misaligned incentives. For the challenges of quality housing to be met, it would require concerted efforts from both private and public sectors. Recommendations from empirical studies reviewed posited for technical assistance to be granted to both the private and public sectors. Exclusively, there is need for assistance to commercial banks for improved loan and mortgage lending systems, in addition to assistance to government to structure policies and regulations customarily (for example, streamlining the system for land titling).

## CHAPTER 3

### METHODOLOGY

#### 3.1 Introduction

Using scientific procedures towards discovering answers to questions is the purpose of research (Kothari 2004; Maxwell, 2012). Having presented a review of literature for the study in the previous chapter, this chapter highlights the research methodology employed to understand the challenges in financing affordable housing. This study followed a qualitative approach for the fund manager, developer and partially towards the homeowners, through employing a mixed-method approach, using the sequential explanatory mixed method design strategy. This chapter outlines the appropriate research approach and discusses the research data and collection thereof. The remaining subsections in this chapter outline the data analysis for both quantitative and qualitative methods, validity and reliability, ethical considerations and concluding remarks.

#### 3.2 Research Approach

Mathews and Ross (2010) state that the two broad groups which methodologies are characterized in are qualitative and quantitative approaches. Qualitative research is defined by Creswell and Creswell (2017) as a method for exploring and understanding the meaning individuals or collectives ascribe to a human and social problems. According to Kothari (2004), exploratory research studies are undertaken when the researcher aims to gain increased insights with a phenomenon and increase understanding on a certain subject matter. This research will adopt an exploratory research design to appropriately understand the main research question in the study. The qualitative approach is thus considered when studying contexts concerned with exploring meanings, feelings and perceptions or experiences by study participants. This approach is important when aiming to analyse underlying human behaviour or preferences (Kothari, 2004). The study aims to used qualitative approach in order to understand and explain the insights of the study participants in the context of the Osona Village Development. A noteworthy disadvantage of the qualitative approach is the possibility of bias due to the subjective data analysis (Rahman, 2017), although a finer depth of understanding of the phenomenon would be gained. For the third

stakeholder, the homeowners, due to their context and sample size, a mixed- method approach was employed, specifically a sequential explanatory design strategy. Creswell (1999) defines the mixed method approach as one which the researcher collects, and analyses quantitative data followed by a collecting and analysing qualitative data – The purpose of this would be to use qualitative results when interpreting findings from a quantitative study. This approach is used to explain and interpret, whilst overcoming the weaknesses of one of the designs. Creswell (2003) discusses various approaches of mixed method design strategies such as the concurrent triangulation, sequential design (exploratory and explanatory), and concurrent nested strategies. The concurrent triangulation strategy consists of combining both methods separately within the same investigation; The explanatory sequential design comprises of collecting and analysing quantitative data followed by a collecting and analysing qualitative data – The purpose of this would be to use qualitative results when interpreting findings from a quantitative study. The sequential exploratory design takes place in two phases. The first phase entails collecting and analysing qualitative data followed by a second phase involving collection and analysing quantitative. The concurrent nested design is characterized by an approach which prioritizes one of the methods and guides the investigation, while the other method is considered nested or embedded. The relevant section of the study used the sequential explanatory design strategy. The quantitative method used to quantify the problem into usable statistics, would quantify the insights of the study participants to ensure corroboration with the qualitative method in the mixed-method approach. An advantage of this approach is that it provides a more comprehensive understanding of the problem than either of the approaches alone. Ivankova, Creswell & Stick (2006) state that in the triangulation design strategy, the researcher makes use of two (or more) method used to confirm, corroborate, or substantiate findings within a study. The data collected was collected with quantitative and qualitative aspects and as such, during the discussion or interpretation of the study, qualitative results assisted in explain the results from the quantitative study. This design assists in interpreting and explaining quantitative findings, therefore, most applicable to analysing the data collected from the homeowners.

The choice of the applicable approach, or combination thereof, should be guided by the research question, the type of data and its subsequent analysis according to Matthews and Ross (2010). This research aims to seek and understanding of the challenges to financing affordable housing, thus, this study aims to gather responses from study participants in the form of their experiences and

perceptions in order to gain a deeper understanding for purposes of addressing the research question.

### **3.3 Study Area**

As a background to the Osona Village Development, the Government Institution Pension Fund (GIPF) in partnership with Preferred Investment Property Fund (PIPF), invested in a mixed-use urban development, the Osona Village Development. The development takes place on portions (comprising 1 100 hectares) of the Farm Osona Commonage No.65, Registration Division J, which has been incorporated into the municipal lands of Okahandja. The land is located some 10 km south of the town of Okahandja and is approximately 50% of Okahandja's land that is allocated for urban development. This investment is planned to provide approximately 11 000 housing units, as well as the infrastructure necessary to allow long-term sustainability of the project.

The goals and objectives of the Osona Village development include: Provision of affordable serviced residential land; Capacity Building; Supporting the creation of social and economic upliftment in Namibia through, investment and development in underdeveloped and previously disadvantaged areas; and Securing returns for investor participants. The implementing partners are the Government of the Republic of Namibia, the Government Institutions Pension Fund and Preferred Management Services (Implementer – Preferred Investment Property Fund (PIPF) Fund Manager). This author found this development to be of interest in the quest to answer the research question as all the stakeholders relating to the topic were available in order to achieve results and provide recommendations.

### **3.4 Research Data**

Good research makes use of reliable and valid data (Roller & Lavrakas, 2015; Singh & Nath, 2007). Research involves gathering either new data from first-hand sources - primary data or utilising existing data that is fit for a new purpose - this is secondary data, or a combination of both (Matthews & Ross, 2010). This study used primary data to carry out the research. For this study, the researcher collected primary data via interviews with the private equity fund manager, associated developers and the homeowners. Likert-scale questionnaires were used for gathering

the quantitative data and follow-up open-ended interview questions supplemented the qualitative data that was collected from the homeowners.

### 3.4.1 Data Collection Instruments

The method that is utilised to gather data is the data collection instrument (Matthews & Ross, 2010). Primary data was utilised to inform the research, via semi-structured interviews to the study participants, which are commonly used for qualitative research, as well as Likert-scale questionnaires to the homeowners for the quantitative approach.

#### *3.4.1.1 Interviews*

Interviews were conducted to understand the meanings of what the stakeholders, namely the fund manager, developers and homeowners. Interviews are more personal than questionnaires and they allow the researcher to gain a developed comprehension regarding the study's subject matter. The researcher conducted interviews using both open and close-ended questions. The rationale was to develop deeper understandings of how the participants perceive their social realities and consequently, their behaviour in the social world. This was beneficial as the researcher was personally able to further probe the responses from the subject-matter of the expert being interviewed so as to provide meaningful insights which would not have been possible from the source of the general public.

#### *3.4.1.2 Questionnaire (Homeowners)*

Questionnaires are used frequently as data collection research tools, with the major advantage being that the questionnaire allows wide coverage and a low monetary expense. The researcher administered questionnaires with a 5-point Likert-scale to homeowners. This instrument was appropriate as it permitted the beneficiaries to express the extent to which they agree or disagree with various statements relating to the challenges in financing affordable housing.

#### *3.4.1.3 Instrument Design*

As presented in Appendix A, B and C, the researcher conducted interviews using open and close-ended questions, in addition to a questionnaire to gauge the participants' discernment of the

challenges that are faced in financing affordable housing, with a specific focus on the Osona Village Development Project.

#### *3.4.1.4 Instrument Administration*

The researcher informed the beneficiaries that a study was to be undertaken in order to determine their views on their challenges and the perceived satisfaction of their experiences at Osona Village. This was achieved by a bulk SMS being sent out to the homeowners informing them of the researcher's interest in engaging them. The researcher then administered the interview/questionnaire face-to-face. Although the desired sample was 65 households, only 40 of the homeowners were willing, able and available to participate in the survey. The fund management and developer personnel interviews were conducted in a similar fashion. The researcher conducted a pre-test or pilot study of the beneficiaries' questionnaire to ensure that the researcher queried the most relevant aspects for the study.

### **3.5 Population and Sampling**

Singh and Nath (2007, p. 180) state that for every research problem, there is "one completely relevant universe, but any number of populations." The purpose of researching includes realising the principles which would be fit for universal application; however, it would be unfeasible and unrealistic, if not impossible, to study an entire population to reach generalisations. There is no single rule to determine the size of the sample. It is dependent on the researcher's precision in estimating the population parameter at a certain confidence level (Singh & Nath, 2007). The study employed a simple random sampling technique, which is one of the methods used to control the scope of the study when selecting the homeowners to contribute to the present study. Other entities of the population, being the fund manager and developers were distinctively chosen for the study.

For this study, the population considered is indicated in the table below (Table 1), from which a sample was drawn for the homeowners and developers of the Osona Village Development. The personnel at Preferred Management Services, the responsible fund manager responsible for the project were part of the sample as they were accessible (Lyons & Doueck, 2010). A representative sample consisting of 65 participants chosen from an estimated number of 197 of Single Residential households (from Osona Village Statistics, as at March 2019), 10 independent developers

contracted at Osona Village Development and the fund manager comprised the survey sample. This sample size is considered statistically large (greater than 30), according to Singh and Nath (2007) and appropriate as it would most likely well-represent the population, as the larger the sample, the smaller the standard error.

**Table 1: Study participants**

No.	Participant	Organisation	Number of Respondents
1	Executive Director	Preferred Management Services	1
2	Developer	Independent	10
3	Single Residential Homeowners	Beneficiaries	65
<b>Total</b>			76

### 3.6 Data Analysis

Prior to the data analysis, the researcher performed data cleaning, as an essential component of qualitative data analysis. Qualitative data analysis is termed as “the process of making sense of research participants’ views and opinions of situations, corresponding patterns, themes, categories and regular similarities” (Vosloo, 2014, p. 5). To analyse the qualitative data, the intended analysis was guided by the following steps as outlined by Creswell (2012) and Vosloo (2014):

- Reducing the amount of raw data, and categorising it thereafter
- Sort through significance from trivialities
- Identifying noteworthy patterns through coding
  - With interview data, open coding involves looking for the distinct concepts and categories in the data. The researcher highlighted the distinguished concepts as the basic units of the analysis.
- Creating a framework for relaying the essence of what the data reveals.

A further method of analysis for the qualitative data used was the thematic analysis. Braun and Clarke (2006) refer to recognizing, examining and reporting patterns found in data, as thematic analysis. For this study, the thematic analysis endeavoured to identify the patterns that were revealed from the themes from the data in the conducted interviews. Braun and Clarke (2006) identify six steps in the process of thematic analysis. These are:

- Becoming well-acquainted with the data
- Earmarking codes to the essential data for description
- Explore the codes for themes throughout the interviews
- Assess the themes
- Assign naming conventions to the themes
- Create the report

For the homeowner component of data analysis, as noted by Ivankova, Creswell and Plano Clark (2007), mixed methods data analysis consists of analysing qualitative and quantitative data using qualitative and quantitative methods respectively. The researcher made use of the sequential explanatory mixed method design strategy. The researcher conducted a quantitative analysis of quantitative data using the summary statistics from the Likert scale responses and factor analysis which is a statistical method that the researcher used for data summarisation and reduction by simplifying a few variables that were considered interrelated. The data was first examined for sampling adequacy using Kayser Meyer Olkin and Barlett tests, while the Cronbach's alpha was used to examine the internal reliability of the constructs for homeowners' challenges in financing affordable housing. The qualitative analysis of the quantitative data which arose from the quantitative analysis and then, by 'qualitizing' the data, this helped to transform the data into qualitative data following the steps outlined above. In addition, the data reduction technique employed was the principal components analysis. This technique is described by Zou, Hastie and Tibshirani (2006) as a data processing technique, which reduces the number of variables by focusing on dimensionality reduction. It follows that this technique combines variables which are correlated, to create another smaller set of variables, known as principal components, which account for a high degree of variance in the data. It is further noted that a shortcoming of this technique is that the principal components form a linear merging of the variables, thus presenting it as challenge to interpret results (Zou, Hastie and Tibshirani, 2006). The findings are presented in Chapter 4.

### **3.7 Validity and Reliability**

The concepts of validity and reliability are essential concepts in primary data collection. Golafshani (2003), states that validity and reliability are entrenched in the positivist perspective.

Furthermore, reliability is referred to as the extent to which the results from an accurate population representation are consistent and able to be replicated under a comparable methodology. Golafshani (2003) further describes that the aspects considered with reliability are focused on the degree to which a measurement remains the same over time, the measure's stability, and over a specified time period, the similarity of the measures.

Validity is outlined as a measure to indicate whether the research is indeed measuring what it intended to measure, in addition to the truthfulness of the research. The triangulation method can be used to test the validity and reliability of a study as it is said to combine methods of data collection and subsequent analysis to form categories or themes in a study (Golafshani, 2003). The present study was reliant on interview and questionnaire data collected from 76 respondents. Although the sample size may be reliable, validity can at most be ensured by the data cleaning process and ensuring that the survey questions are closely linked to the research questions. Cronbach's Alpha was used for reliability for the study.

### **3.8 Ethical Considerations**

Ethical principles and guidelines bind researchers to ethical practices as illustrated in government regulations as well as in ethical codes of professional associations (Lapan, Quartaroli, & Riemer, 2011). The researcher aimed to undertake the required ethical considerations when conducting the study. Considering aspects such as honesty, respect and confidentiality towards the study participants, in addition to clearly informing participants that their contribution was voluntary and that they were able to withdraw from the study at any point, was clearly communicated.

### **3.9 Limitations of the Study**

The studies of financing affordable housing are far-reaching and could be viewed from various aspects; however, this study only focused on the perspective of private equity and its associated stakeholders, in addition to a focus on a specific case – the Osona Village Development. A constraint in this regard was that not all anticipated participants from the beneficiaries were willing to contribute to the research by participating in the study. The researcher found that it was not possible to cover all affordable housing projects undertaken countrywide due to time constraints.

Therefore, there were limitations to the generalisability of this study's results to the broader study area.

### **3.10 Conclusion**

This section addressed the study's research methodology. The research approach was identified, highlighting the research approach as qualitative and another part used the mixed method approach. The data collection methods and instruments, and the data analysis procedures addressing the significantly qualitative nature of the study were presented. In conclusion, the ethical considerations were observed.

## **CHAPTER 4**

### **PRESENTATION AND DISCUSSION OF FINDINGS**

#### **4.1 Introduction**

This study aimed to provide a platform to understand the challenges faced in financing affordable housing by respondents related to the Osona Village Development, and these were the private equity fund manager appointed by the GIPF, developers and beneficiaries (homeowners). As discussed in the literature review chapter, efforts in support of housing finance are not solely limited to end-user housing finance such as mortgages, but these additionally include the implementation of the housing value chain, including the processes of land acquisition, title deed registrations and transfers, and the construction process.

To respond to the research question, results from the survey were gathered from three sources. The targeted respondents were the Preferred Investment Property Fund (PIPF)'s Executive Director, ten developers associated with the Osona Village Development and forty of the ultimate beneficiaries and the study was conducted using both face-to-face, open-and-closed ended interviews and questionnaires.

The findings are presented in three sections. Section 4.3 presents the findings from the private equity fund manager (Appendix A); section 4.4 presents responses to questions relating to the developers associated with the Osona Village Development (Appendix B); and the final section, section 4.5, presents responses pertaining to the beneficiaries (Appendix C).

## 4.2 Response Rate

A total of 76 interviews/ questionnaires were personally administered by the researcher to the fund manager, developers and beneficiaries, with a 67% response rate, and the responses were analysed as per the techniques outlined in the previous chapter.

**Table 2: Response rate**

No.	Participant	Organisation	Frequency	% age
1	Executive Director	Preferred Management Services	1	1.96%
2	Developer	Independent	10	19.6%
3	Single Residential Homeowners	Beneficiaries	40	78.43%
<b>Total</b>			51	100%

Source: Candidate's estimate from research data

As indicated in the above table, all the interviews from the fund manager and developers were completed and analysed, whilst only a 62% response rate was achieved from the beneficiaries (40 out of 65). The findings from the survey information are presented below.

## 4.3 Challenges in Financing Affordable Housing

The thematic findings on the challenges faced in financing affordable housing are presented from the perspectives of developers, homeowners and the private equity firm. The results of the interview with the executive director of the private equity fund manager, the interviews with the developers, and thirdly, the questionnaire administered to the homeowners are presented.

The results from the interviews and questionnaire were primarily analysed to answer the question on what the pertinent obstacles in financing affordable housing were. The instruments used were appropriate for this study due to them permitting the researcher to measure the study participants' perceptions and to assess their insights. The interviews and questionnaires for this study are included in Annexures A, B and C. The findings of the study were gathered and assimilated with the relevant sections from the literature review in Chapter two.

### 4.3.1 Private Equity Fund Manager Perspective

This section highlights the findings of the challenges faced by the fund manager related to the Osona Village Development. To begin with, the fund manager was asked about the fund name and

the SPV as per Regulation 29, how long they have been in operation in general, the specific activities and links to affordable housing provision and the challenges faced.

From the analysis, the challenges faced by the fund manager in financing affordable housing were identified as challenges in land titling and registration, acquisition of un-serviced land from local authorities, reliance of funding from a single investor participant and end-user financing bureaucracy.

#### ***4.3.1.2 Preferred Management Services***

During the first interview, the executive director of the fund manager was asked to provide its name and the Special Purpose Vehicle (SPV) as per Regulation 29, which requires that unlisted investments by pension funds must be conducted through the SPV, which is a private company, a public company or a trust – of which in the present study it is a trust. The name of the private equity fund manager is Preferred Management Services (PMS), operating with the SPV as the Preferred Investment Property Fund (PIPF). The fund manager was asked how long the fund manager had been in business in general. The response was that the fund manager had been in operation for nine years, and since May 2014, they commenced their largest investment and development, the Osona Village Development.

#### ***4.3.1.3 Link to Affordable Housing Finance and Housing Provision***

The fund manager indicated that it is involved in the following activities: land planning and formalisation process; land servicing (bulk water, electricity, sewer); sales of serviced land to developers; and joint management of municipal services. The fund manager is not involved in the actual construction of houses particularly at Osona Village; however, it forms part of their mandate relating to similar developments. The respondent further revealed that the fund manager does not facilitate the process of financing home buyers, although it tracks and keeps a record of such for internal statistical purposes. The fund manager's activities were said to comprise of the land planning and formalisation process (of which it takes approximately one-fifth of their time); land servicing (bulk water, electricity, sewer), of which they spend a quarter of their time; sales of serviced land to developers, also approximately a quarter of the time spent as an activity as a fund

manager; and activities of facilitating joint management of municipal services provision with the Osona Property Management Company (OPMC), which fulfils municipal services, as the Osona Village Development project is located between Windhoek and Okahandja.

The GIPF has committed N\$ 252 252 252 to PIPF, which, as discussed in the literature, is their mandatory 99% co-investment contribution. The respondent noted that the fund manager has reserved at least 30 % of their total capital to the Osona Village Development to date. He further indicated that the bulk of their funds to this development are expended on land servicing, which utilises in excess of 80% of their funds. When tasked to fulfil their mandate, the major consideration is that they are heavily reliant on one investor participant, which therefore would pose a significant impact on the overall operation of the fund manager as there are no alternative investment sources or co-investors, and as such, any change to the funding arrangements, be it negative or positive, would impact the operation in fulfilling the mandate, according to the fund manager. Despite this, at present the fund manager believes, despite challenges to be highlighted below, that they have a perceptively high success rate on the projects although it is an ongoing development and the fund manager believes that the quality and delivery of affordable housing is adequate with highly satisfied beneficiaries. He responded by alluding to the point that they are content with being a vital part of catering to mostly first-time homebuyers in Namibia.

#### **4.3.1.4 Challenges Faced by Fund Manager**

##### *i. Land titling and registrations*

The respondents answered to the average time it takes for registrations and title transfers pertaining to this development, which was a total of ninety days. This is deemed a highly lengthy process relative to the content discussed in the literature, where an example of an efficient country in this regard, Saudi Arabia, ranking in the first worldwide, was noted by Shirazi et al. (2012) to involve two processes and two business days to register a property and to transfer the title. The findings of a lengthy land titling and registration process are consistent with the literature, whereby the recording, registering and transferring processes are considered cumbersome and they consequently raise the costs and result in time constraints (Shirazi et al., 2012; AUHF, 2016; Erb, 2019). Furthermore, there may be an absence of co-ordination and cooperation among relevant

departments that are involved in the registration and title deed transfers in the Deeds Office, in addition to the aspect of reliance on a manual, thus inefficient system .

When asked about the significant operational challenges as a fund manager regarding their affordable housing investments, the fund manager further highlighted the gravest obstacles:

*ii. Acquisition of un-serviced land from local authorities*

The fund manager highlighted that the acquisition of un-serviced land from local authorities is an obstinate challenge. He is of the opinion that the local authorities do not adequately provide land to create a sustainable land bank, in addition to attaching restrictive conditions to the contracts entered regarding land acquisition. This is consistent with prior studies by Sherbourne (2018) which found that there are limited legal regulations in the housing sector, thus posing a challenge should remedial action be required in the event of a dispute regarding the restrictive conditions placed in the contracts. The local authorities' adverse actions as noted in the findings are consistent with the studies discussed by Zaaruka et al. (2005) and Akeju (2007), citing that stable environments and sound institutions are essential to affordable housing provisions. According to the respondent, this has enervating effects on the investment in its entirety, as it would have to, apart from the financial commitment and risk mitigation strategies, adhere to restrictive conditions often in favour of the local authorities. The respondent stated that one significant aspect of affordable housing provision is the availability of low-cost serviced land. This corroborates prior studies by CAHF (2018), Sherbourne (2018) and National Planning Commission (2019) who agree that unavailability of serviced land has been alluded to as one of the key aspects facing the development of adequate and decent housing in Namibia. The respondent opined that, should that fundamental not be a priority, it could undermine the entire concept at the core of affordable housing provision. The land too should be affordable to deem the provision of affordable housing in its entirety, a success.

He noted that recently, the Minister of Urban and Rural Development in Namibia introduced a Public-Private Partnership (PPP) arrangement in favour of engaging stakeholders more efficiently in the area of affordable housing. This, according to the respondent, was supposedly done as an attempt to make un-serviced land more accessible and cost-friendly to investors, developers and

the public alike. The fund manager stated that it is crucial that when coordinating such initiatives, there should be due consideration of the financial obligations and risk-mitigating factors. He said that:

*“The initial intent behind this arrangement was to benefit the councils and other stakeholders alike, however I believe that it ended up crippling the investors and developers – not only financially, but also in terms of new requirements to adhere to.”*

**iii. Reliance of funding from single investor participant**

The reliance on one main investor participant as the key source of income poses a major challenge for the fund manager. As per the discussed regulations in the literature, the GIPF commits 99% of the capital to the fund manager, which contributes the remaining 1%. There are no additional co-investors. The challenge posed is that should any changes (if negative) to the funding arrangement or capital contributions be experienced, the fund manager would suffer severely detrimental effects, and this can cripple its operations in aiming to fulfil its mandate of addressing the affordable housing dilemma. This finding is consistent with literature on challenges in financing affordable housing which agree that available financing is the cornerstone of sustainable housing provision, further citing that the inadequate quantity and quality of housing is resultant of ineffective financing access (Zaaruka et al., 2005; Akeju, 2007; Kuma, 2015). This finding is however inconsistent with the study by Ehlers (2014) where he opposes the idea that lack of available financing is an impediment to addressing infrastructures due to the abundance of funds in world markets matched with low long-term interest rates. The respondent stated that the current arrangement does not enable the fund to seek alternate sources of investment at present, although in the future it would consider this as a major financial and operational risk-mitigating factor.

**iv. End-user financing bureaucracy (mortgage financiers)**

Although the respondent noted that they are not directly involved in providing end-user financing to the homebuyers and neither to developers for construction purposes, they do keep a track of the processes experienced by the homeowners when seeking mortgage financing. The fund manager recognises that the requirements to qualify for home loans are cumbersome and time-consuming. The fund manager perceives the end-user financiers, banks that is, to be inefficient regarding processing times. The respondent said that the inefficiencies indeed pose a negative impact on the

turn-over and turn-around times relating to sales and cash-flow for the fund manager. He explained that the longer it takes for the mortgage processes to be approved for the clients, the longer it takes for the developer to receive his capital, with which he engages with the fund manager for further acquisition of serviced land to further proceed with the construction for affordable housing provision. This finding is in line with the literature discussed regarding the concern is that there is a lack of availability of financing vehicles, which are long-term in nature, for financing mortgages and to address housing demand, thus well-developed mortgage market is required, comprising of banks and specialised institutions (AUHF, 2016) ; as well as the International Union for Housing Finance (2009) noting that there is a mismatch and related liquidity risk to these institutions derived from the long-term nature of maturity and deposits which have a shorter- termed nature, and there is thus an absenteeism of a desired secondary mortgage market.

#### **4.3.2 Developer Perspective**

This section presents the results of the challenges faced by the developers related to the Osona Village Development. To begin with, the developers were asked how long they have been in operation as developers in general, and secondly, on the Osona Village Development. The average result in general was 10 years, whilst it was 2 years at Osona Village. The first houses were developed and handed over in mid- 2017. The respondents' average number of houses constructed at the development by the respondents was thirty houses.

From the thematic analysis, the challenges faced by developers in financing affordable housing were identified to be land acquisition, funding acquisition, building plan approval and other challenges.

##### *i. Land Acquisition*

When the respondents were questioned regarding whether they experienced any challenges when engaging with the fund manager regarding land acquisition, they all noted that they experience none. They highlighted that the terms were clearly communicated, the required documentation was on hand, the contract process, allocation of erven, payment and their approval processes were efficient. However, some of the developers felt that when discussing the acquired land, the prices for the serviced land required, especially the general residential erven (sectional titles) were high.

They made that argument on the basis that they felt that in comparison to the industry norm, it was slightly high.

One of the developers said that she felt strongly that overall the prices are too high; stating that the prices could be brought down if the fund manager would cut the costs they expend on services. She opined that the service provider used for providing the bulk water, sewer and electricity services charges exorbitantly high costs and this has a direct impact on the ultimate cost of land on offer for the developers. She stated that when talking about affordable housing, the core should be affordable land to begin with, which corroborates with the opinion of the fund manager, as, she noted, would have an overall impact on constructing and delivering housing within the affordable scope. She said that:

*“In order for us as developers to provide houses affordably at the end of the day, the land should be affordable too”.*

#### **ii. Funding Acquisition**

When asked about the obstacles faced during funding acquisition from financial institutions, some of the developers who received funding from financial institutions (some used cash and therefore did not engage financial assistance) noted that the interest rates associated are tremendously high. One developer noted that he approached a non-bank financial institution in the hope of acquiring a building loan with favourable terms because of the foreseen construction costs (including high cost of building material); however, he found that the interest rates were just as high. Another respondent also noted that the requirements from banks are too stringent. He stated that there are several bureaucratic processes which negatively impact the developers and in turn, he felt that the banks lack the appetite to provide financing due to the low profit margins – this, he notes, is a significant challenge especially because of the affordable housing consideration, whereby the developers are not fully driven by the high profit motives such as in the real estate or high-income earner house provision sectors. The same developer said that he had experienced specific holdbacks due to insufficient collateral. This finding corroborates Mwilima et al., (2011) whereby people are unable to access finance because of inadequate or no collateral, as well as not meeting the requirements of being in possession of a title deed. Some developers, those who operate on the progress payment basis, expressed that the banks take a lengthy period to approve the clients’

mortgage applications, which could translate to cost overruns to the developers, as it misaligns their timelines, which affect the entire construction process. These findings corroborate with studies alluding to banks to have stringent requirements and thus face difficulties in qualifying for loans (Smit, 2003). Two developers duly expressed that the funding aspect does not impact the standard of the housing delivered, noting that they never compromise on the quality of the house due to their expertise and ability to plan and budget construction costs accordingly.

### *iii. Building Plan Approvals*

All the respondents found that there is an extremely long and bureaucratic process to go through when seeking construction approvals, building permits and completion certificates. They all noted that there are too many stakeholders involved and they have varying requirements which may take additional time and costs to adhere to, as in some cases, they are not necessarily in line with the industry norms, but are rather unique to the development. The approval of building permits for example, must be done by the Town Council in Okahandja and once again by the Osona Property Management Company (OPMC) which is the municipal body of the development. This finding is in line with Ram and Needham (2016) highlight that there are several building permissions that are required which may have delays which pose challenges to developers. They cite issues such as corruption, in-adequate workforce and bureaucracy by the government officials as well as resistance to change, among others, as some of the challenges. The multiple submission processes, requirements, red-tape and related costs all, as expressed by all the developers, contribute to cost-over runs and affect the developer's timelines, budgets and ultimately their workmanship

The developers further felt that there is too much and undue red-tape and the processes for approvals are not stream-lined enough, even in relation to the general industry standards, which ultimately causes delays and budget increases which are undesirable. When asked about the municipal body services, they believe that, given the developer's general years of experience in the industry, the municipal body is lacking in technical knowledge which affects the developer's duties. For example, one developer noted that they are aware of cases apart from themselves, where the developers were denied the issuance of completion certificates when, according to the industry, they are to be issued such documents (because the building is completed to the desired level); however, due to unique requirements to the development by the staff, they are delayed because of the issuing of the documents due to minor issues. The respondents also expressed that they believe

that the rates charged to them by the municipal bodies are not in line with the industry standards and this affects their budgets and ultimately disadvantages them as developers and often, the ultimate homeowners.

Despite these challenges, the developers feel that the beneficiaries are fairly satisfied with the housing they provide.

#### *iv. Other Challenges*

Although building materials are readily available, the majority of developers consider the prices of the building material to be costly. The major challenge in this, they noted, is the fact that this is completely not in the control of the developers. Some of the respondents highlighted that the cost of building materials is rising exponentially in their view, and as such, this directly impacts the construction costs. One of the developers noted that it is often a spill-over burden on the client who then suffers from the additional costs and this possibly compromises the quality of houses provided.

#### **4.3.3 Beneficiaries' Perspective**

This section presents the findings of the challenges faced by the beneficiaries (homeowners) that are related to the Osona Village Development. To begin with, the quantitative data collected was analysed, followed by the qualitative data component as per the sequential explanatory mixed method design strategy. From the analysis, as from the quantitative perspective, the challenges faced by the homeowners in financing affordable housing were identified to be high interest rates from financial institutions, the catering to primarily high-income earners, bureaucracy and strict requirements by banks, and the lengthy processing time. From the thematic analysis from the qualitative analysis, the challenges faced by the homeowners in financing affordable housing were identified as the lengthy bank application process, associated costs, and the lengthy approval processes.

### 4.3.3.1 Quantitative Results

Table 3 presents the summary statistics of the Likert scale responses on the challenges faced by homeowners. Table 3 presents a summary of the statistics of scale and table 4 indicates the principal component of the challenges faced by homeowners.

**Table 3: Summary Statistics of Scale**

Item	High interest rates	High income groups	Requirements to qualify	Long process	Test scale
Mean	3.525	3.575	3.775	3.400	
Std. Dev.	1.062	0.984	1.230	1.336	
Min	1	2	1	1	
Max	5	5	5	5	
Cronbach alpha	0.825	0.799	0.680	0.716	0.808
KMO	0.787	0.865	0.672	0.703	0.731
Bartlett test (p-value)					59.206 (0.000)
Observations	40	40	40	40	

Source: Candidate's estimate from research data

As shown in table 3 above, the four highlighted challenges are high interest rates, high income group preferences by banks, strict requirements to qualify and lengthy processes. These findings were consistent with prior studies which discuss the stringent requirements by banks (Mwilima, 2011). For these variables which describe categories, rather than quantities, frequencies tell you how many observations are in each category. The means for the four categories are 3.525, 3.575, 3.775, and 3.400, respectively.

The Cronbach Alpha measures how closely related the items are in a group and is considered a measure of scale reliability. Cronbach's Alpha's minimum acceptable value is set at 0.70. The maximum value is 0.90, which after this, perception of duplication or redundancy arise. From the table, it is evident that the Cronbach's alpha coefficient of 0.808 is clearly acceptable and that the items of the scale are closely related to each other.

The Kayser Meyer Olkin value (KMO) value should be higher than 0.5. The KMO is a measure of how suitable the data is for factor analysis. From table 3, the result, indicating a value of 0.731, which is higher than 0.5 that the data is adequate for factor analysis. The KMO additionally indicates the amount of variance in the variables which is caused by underlying factors.

The Barlett test (p-value) tests if the samples are from a population with equal variances, further indicating that variables are unrelated and thus unsuitable for uncovering structure. Values of less than 0.05 indicate that a factor analysis would be useful for the data. As indicated in the table, the value is 0.000, indicating that the factor analysis would be useful. Therefore, the assumption of equal variance is true, prior to running statistical tests.

The principal component of the Homeowner’s challenges is presented in Table 4. Factor analysis is used frequently for data reduction purposes, and in this case, to obtain a small variable set from a larger set of variables. The key aspect of factor analysis is such that multiple variables share similar response patterns due to them being associated with a variable which is not directly measured (latent). For this study, the four challenges were responded to and are all associated to financing affordable housing challenges, which is not directly measured (latent).

**Table 4: Principal Component of Homeowner Challenges**

<b>Variable</b>	<b>High Interest Rates</b>	<b>High Income Groups</b>	<b>Requirements to Qualify</b>	<b>Long Process</b>
Eigenvalue	3.660	0.822	0.562	0.349
Difference	2.837	0.260	0.213	.
Proportion	0.679	0.152	0.104	0.065
Cumulative	0.679	0.831	0.935	1.000
Factor 1			<b>0.5485</b>	<b>0.8349</b>
Factor 2	<b>0.9531</b>			
Factor 3		<b>0.9982</b>		
Unexplained	0.031	0.001	0.217	0.100

Source: Candidate’s estimate from research data

In factor analysis, the number of factors should be equal to the number of variables. As such, as can be seen from table 4, there last 2 challenges (Requirements to Qualify and Long Process) fall under the same factor, Factor 1 – which will be referred to as ‘Application Challenges’ as these two challenges are associated with each other. Factor 2 is related to High Interest Rates and Factor 3 relates to the High-Income Group challenge, which is consistent to what the study has found in the empirical literature. Every factor contains a portion of the overall variance and they are listed in order of how much of the variance they explain. This is described by the eigenvalue. This value

measures how much of the variance of the variables is explained by the factor. Factors with an eigenvalue of greater than or equal to 1 reveal more variance than one variable. The eigenvalues for the four variables are 3.660, 0.822, 0.562 and 0.349 respectively. The findings from the table above, table 4, indicate that factor 1, Application Challenges has the strongest association to the latent variable. This agrees with the challenges presented in the empirical studies, relating to the stringent requirements from financial institutions (Smit, 2003; Mwilima, 2011).

#### **4.3.3.2 Qualitative Findings**

This section highlights the challenges analysed qualitatively, namely the lengthy application processes at the financial institutions, the costs associated and the lengthy bureaucratic approval processes and these are all described below:

##### *i. Associated Costs*

The banks are willing to provide financing to these homeowners as they fall above the low-income earning ranges and the financial institutions are inclined to provide reasonable packages to cater to the homeowner's incomes since they are targeted beneficiaries. This is attributable to the fact that this development was structured to and catered to the relatively middle-income groups, as per its target market. This finding is consistent with the literature which discussed that banks are being seen to be only lending to employees with salaries and who have high minimum loan sizes (CAHF, 2013; International Union for Housing Finance, 2009). Some of the costs associated on the part of the homeowners include payments of transfer and stamp duties, property taxes and costs associated with document preparation. One of the homeowners expressed disappointment as he mentioned that he had to use all his savings to pay for the associated transfer fees as he considered them to be too high. Furthermore, some of the respondents felt that their monthly instalments are too high given all other expenses they must cater for. Interest payments are included in the monthly bond instalments, which some households deemed excessive, although the bond amount is based on the amounts the banks believe the homebuyer can fulfil. This finding corroborates with Smith (2003) discussed whereby commercial banks as financial institutions are largely cognisant of the default-risk posed by low-income earners, and as such, there is a misalignment with regards to the non-existent secondary market adjustment to cater to accessibility of housing finance, particularly to

those who earn lower incomes, and those who face difficulties in qualifying for loans or meeting the bank's stringent requirements.

**ii. *Lengthy Bank Application Process***

One of the homeowners noted that there was a challenge as certain developers did not wish to engage with certain banks, and vice versa, which therefore posed a major set-back in his housing acquisition process. Another homeowner complained that he had to settle all his financial debts beforehand and this posed a challenge for him in the application process as it stalled the application process significantly. Some of the other homeowners expressed that the banks take an unnecessarily long time to process their applications despite all their documentation being in order.

**iii. *Lengthy and Bureaucratic Approval Process***

One of the respondents noted that they waited in excess of one year for bank approval. This challenge substantiates a ripple effect that is experienced by developers as discussed, whereby delays in their approvals would disadvantage the developer's schedules and cashflows.

## CHAPTER 5

### CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the conclusion, recommendations and suggestions for further studies. The purpose of this study was to understand the challenges of financing affordable housing from the perspective of a private equity fund manager, the related developers and beneficiaries. This chapter presents the conclusion and recommendations aimed to positively address the issues in affordable housing. The results of this research are directed towards stakeholders in the processes of affordable housing finance, for them to gain a richer comprehension of the challenges encountered in this predicament.

#### 5.2 Summary and Conclusion

The objective of the study was to understand the challenges of financing affordable housing from the perspective of a private equity fund manager, the related developers and beneficiaries at the Osona Village Development as a focus. There is a limited number of studies on this focus area in the Namibian context. The stakeholders focused on were the private equity fund manager, given that private equity, as discussed in the literature, is a relatively novel concept to Namibia; the developers that are directly associated with the project, though they are experienced from other similar developments; and the ultimate beneficiaries of the development, the homeowners. The three stakeholder groups were interviewed, and they completed some questionnaires. The qualitative (all stakeholders) and quantitative (homeowner) data was collected and analysed as per the discussed aspects in the methodology. The importance of the study was therefore to provide a wider understanding of the challenges faced by certain stakeholders and the factors that require revisiting or amendments in order to save costs, to reduce risks and foster higher possibilities of success through better-facilitated roll-outs of land for servicing for affordable housing provision.

The study notes that the fund manager, although facing a multitude of challenges, still provides for processes which deliver satisfactory housing. The registration process and title deed transfer processes take a staggering 90 days, and challenges are faced when aiming to secure a much-

needed land bank. Relying on a singular investor participant is a critical factor which could have an overall impact on the success of the fund manager's mandate fulfilment.

The findings from the developers revealed that they face major challenges in areas of prices of serviced land, access to financing, high costs of building materials, high costs of construction, and most pertinently, the lengthy and bureaucratic process of approvals (i.e. building permits, plans, clearance certificates) which have a direct impact on the time it takes to complete their structures, and most significantly, their budgets. These findings were consistent with the discussed literature. It was further revealed that the availability and use of financial resources at times could impact of the quality of housing delivered to the beneficiaries by the developers, although the beneficiaries, overall, appeared satisfied with their housing and service provision thereof. The developers faced challenges when seeking finances which required them to have proven collateral and credit, in addition to facing the cost of such credit in the form of high interest rates.

In relation to the homeowners, the survey interestingly revealed that a few of the respondents found, after some time as residents, that the monthly instalments are too high for them. The major challenges faced by the homeowners pertain mainly to the associated costs, long processing time for approvals as well as the strict requirements by the banks. The homeowners expressed satisfaction with the overall quality of the houses, surroundings and safety, although some cited difficulties in having their day-to-day grievances adequately attended to by developers. Overall, collaboration is necessary on all levels between these stakeholders for the continued quest to combat challenges faced in financing and delivering adequate affordable housing.

### **5.3 Recommendations**

To improve the processes involved in financing affordable housing in Namibia, in terms of the local authorities and the fund managers or those acquiring the land, there should be increased engagement and negotiations to lift the stringent conditions placed in order to provide for an adequate serviced land bank for the purposes of affordable housing. Furthermore, there should be increased avenues of alternative and additional funding sources or co-investors to mitigate financial risks incurred should there only be one key investor at play. Additional capital should be availed to improve the turnaround time regarding capital drawdowns from investor participants. The length of time it takes to transfer properties to the end user and the related processes require significant refocus to shorten the period. With respect to the developers, the banks should revisit their strict requirements and improve their efficiency by restructuring the processes involved in granting the required funds and the approval of applications. Furthermore, collaboration and constant engagement should be prioritised between all stakeholders, especially those in service provision and local authorities in order to address the red-tape, in order to streamline all the necessary processes in order to mitigate risks, save costs, save time and most importantly, create effective and efficient methods of successfully providing for affordable housing.

### **5.4 Suggestions for Future Research**

This study was undertaken to understand the challenges in financing affordable housing from a multiple stakeholder perspective focusing on the Osona Village Development. It would therefore be impractical to generalise the findings to all other developments countrywide. Therefore, it would be vital to conduct studies of a similar nature in other contexts. Each stakeholder discussed requires greater probing and understanding in order to uncover more efficient methods in which the challenge of affordable housing finance should be addressed. This, in addition to other contributing factors or stakeholders left out of this study, is also proposed for future research. This would provide a substantial basis to combat the challenges of financing affordable housing and improved service delivery for affordable housing.

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## Appendices



My name is Twapandula Nghifindaka, I am currently pursuing a Master of Commerce Degree in Development Finance at the University of Cape Town's Graduate School of Business. As part of my studies, I am required to conduct research in my academic area of interest. My research topic is titled **Understanding the Challenges in Financing Affordable Housing: A Case of Private Equity Fund Managers in Namibia.**

Your participation in this study is voluntary, you can choose to withdraw from the research at any time. Your responses will assist in providing an insightful contribution to understanding the challenges in financing affordable housing, particularly concerning the Osona Village Development. You will not be requested to supply personal information, ensuring anonymity and confidentiality.

Should you have any questions or concerns regarding this research, feel free to contact me:

Phone: +264 81 850 6633

Email: [tuapsn@gmail.com](mailto:tuapsn@gmail.com) / [Twapandula@preferred.com.na](mailto:Twapandula@preferred.com.na)

This interview/questionnaire will take no longer than 15 minutes to complete.

Many thanks for your participation.

**Appendix A – Interview Questions for Private Equity Fund Manager**

1. Name of Fund Manager and Special Purpose Vehicle:

\_\_\_\_\_

2. How long have you been in operation?

In General: \_\_\_\_\_

At Osona: \_\_\_\_\_

3. How are you linked to financing affordable housing provision at Osona Village, Okahandja?

Activity	If yes, X	% time spent
Land planning and formalization activities		
Land servicing (water, sewer, electricity)		
Serviced land (erven) sales to developers		
Construction and provision of housing		
Financing home buyers		

Other? Please specify: \_\_\_\_\_

4. What %age of your total capital have you reserved for the Osona Village Development to date? \_\_\_\_\_

5. Which activities consume the bulk of your funds? \_\_\_\_\_

6. What is the average time it takes for registrations and title transfers? \_\_\_\_\_

7. Please circle the relevant response, on a scale of 1 (strongly disagree) – 5 (strongly agree):

A	We are financially heavily reliant on one key investor participant (GIPF)	1	2	3	4	5
B	We receive adequate funding to fulfil our mandate	1	2	3	4	5

C	Any change (positive and negative) to the funding arrangement would heavily impact us	1	2	3	4	5
D	Our affordable housing projects have a generally high success rate	1	2	3	4	5
E	We deliver adequate affordable housing	1	2	3	4	5
F	The beneficiaries of affordable residential homes are satisfied	1	2	3	4	5

8. What are your 3 most significant operational challenges as a fund manager regarding affordable housing investments?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

9. What strategies does the fund manager have in place to overcome abovementioned challenges?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

10. What strategies do you propose the government/ GIPF implement to assist fund managers successfully fulfil their mandates?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Thank you for your participation!**

**Appendix B – Questionnaire for Developers**

1. Name of Developer (optional): \_\_\_\_\_
  
2. How many years have you been operating as a developer? \_\_\_\_\_  
 In General: \_\_\_\_\_  
 At Osona: \_\_\_\_\_
  
3. Number of houses constructed at Osona Village: \_\_\_\_\_
  
4. Please circle the relevant response, on a scale of 1 (strongly disagree) – 5 (strongly agree):

A	The cost of serviced land at Osona Village is reasonable/ affordable	1	2	3	4	5
B	The land acquisition process at Osona Village is easy	1	2	3	4	5
C	Suitable building material and technologies are readily available	1	2	3	4	5
D	The costs of building materials are high	1	2	3	4	5
E	The availability of financing impacts the quality of housing I supply	1	2	3	4	5
F	Financing (e.g. Bridge Financing) is easily available	1	2	3	4	5
G	There are lengthy bureaucratic approvals for building and construction	1	2	3	4	5
H	The homeowners are satisfied with their housing	1	2	3	4	5

5. What challenges do you face in the land acquisition process?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

6. What challenges do you experience in terms of acquiring funding from financial institutions? (e.g. bridge financing)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

7. What challenges do you face in terms of construction and building approvals and other regulations?

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8. What challenges do you experience when corresponding with clients/homebuyers (especially first-time buyers?)

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9. Other comments/ suggestions/ challenges:

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**Thank you for your participation!**

**Appendix C – Osona Village Development Homeowner Interview (Single Residential)**

1. How did you finance your home?

Savings	
Mortgage	
Other , specify:	

2. If a mortgage was acquired, what challenges were experienced?

\_\_\_\_\_

3. What was your reason for choosing to live at Osona Village?

A	Houses are too expensive in Windhoek/ elsewhere. The houses at Osona Village are relatively more affordable
B	Work-related reasons
Other:	

4. Please circle the relevant response if financial institution was used, on a scale of 1 (strongly disagree) – 5 (strongly agree):

A	The banks charge high interest rates	1	2	3	4	5
B	The banks often cater to high-income groups	1	2	3	4	5
C	The requirements to qualify for loans are too strict	1	2	3	4	5
D	Banks take long to process loans	1	2	3	4	5

5. What other financial challenges did you face in acquiring your house?

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Continued

This section of the interview is to gauge the homeowners' satisfaction on their after-occupancy service delivery.

Date	
Erf Number	
Homeowner Name (optional)	
Month of Occupation	
Developer (optional)	

<p><b>Circle relevant response:</b></p> <p style="text-align: center;"><b>QUALITY OF HOUSE/SERVICES</b></p> <p>1. Are you happy with the water services? Y / N If no, why? _____</p> <p>2. Are you happy with the electricity services? Y / N If no, why? _____</p> <p>3. Are you happy with the sewer services? Y / N If no, why? _____</p> <p>Additional Comments on House/Services: _____ _____</p> <p style="text-align: center;"><b>COMMUNITY/ ENVIRONMENT</b></p> <p>4. Do you consider Osona Village a safe environment? Y / N If no, why? _____</p> <p>5. Are you happy with your neighbours? Y / N If no, why? _____</p> <p>6. Are you happy with the grocery store? Y / N If no, why? _____</p> <p>7. Are you happy with the surrounding areas of your house? (i.e. yard / trees) Y / N If no, why? _____</p> <p>8. On a scale of 1-5, how good is your cell phone reception/network? 1(bad) - 5(very good)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </table> <p>Additional Comments on Community/Environment: _____ _____</p>	1	2	3	4	5	<p style="text-align: center;"><b>MANAGEMENT A: OPMC (MUNICIPALITY)</b></p> <p>9. Is the Customer Care Centre helpful? Y / N If no, why? _____</p> <p>10. Who do you contact at the Customer Care Centre? Comment: _____</p> <p>11. On a scale of 1-5, how responsive is OPMC to your queries? 1(not responsive) - 5(very responsive)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </table> <p>Comments: _____ _____</p> <p>12. Does OPMC conduct routine maintenance checks? Y / N Additional Comments on OPMC: _____</p> <p style="text-align: center;"><b>MANAGEMENT B: DEVELOPER</b></p> <p>13. Do you communicate often with your developer? Y/N</p> <p>14. On a scale of 1-5, how responsive is your developer to your problems? 1(not responsive) - 5(very responsive)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </table> <p>Comments: _____</p> <p style="text-align: center;"><b>OTHER</b></p> <p>15. Do you own a car? Y / N</p> <p>16. Where do you work? _____</p> <p>17. How do you get to work? Own car / taxi</p> <p>18. How far do you travel to get to work? _____km</p> <p>17. Where do you shop? _____</p> <p>18. How many people live in your house? _____</p> <p>19. Ages of house occupants:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </table> <p>20. Where do your children go to school? _____</p> <p>21. Would you prefer your children to go to school in Windhoek or Okahandja?</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>Windhoek</td> <td>Okahandja</td> </tr> </table>	1	2	3	4	5	1	2	3	4	5											Windhoek	Okahandja
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