

Affordable housing market holds up well



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DESPITE the global economic turmoil and its effect on emerging markets, the medium-term outlook

House building for low- and moderate-income buyers carries on, says financier

for property in SA remains positive, especially in the affordable housing segment of the market.

The huge demand for housing in SA in the low- to moderate-income level, combined with declining interest rates and relative political and economic stability, continues to drive investment in the affordable end of the market.

International Housing Solutions (IHS) MD Soula Proxenos says although much of the sheen has come off emerging markets, these markets are not necessarily alike and each is responding differently to the recession.

IHS manages one of the largest nongovernment housing funds in SA,

the R1,3bn SA Workforce Housing Fund, and already has a number of housing projects under way and more in the pipeline.

"If we look at the so-called Bric countries — Brazil, Russia, India and China — it is readily apparent that Brazil is holding up reasonably well, Russia is in terrible shape and India is overheated and correcting sharply while being affected by high-profile scandals. As for China, we are all holding our breath; as it increasingly assumes the role of engine to the world's economy, its fate is ultimately ours too," she says.

"In SA there are a number of fundamentals in place which favour continued growth in the 'affordable

housing' segment. In addition to the huge gap between demand and supply, SA is relatively politically stable and has a transparent and good environment for doing business."

Proxenos says new housing starts in SA are down, which will increase the disparity between houses available and entrants into the market.

Mortgage rates, not only in SA but across the world, are coming down as inflation takes a nose-dive, making debt and therefore home ownership more affordable.

The other good news is that land prices and construction costs are softening as the economy and inflation turn down.

"The much discussed credit

crunch has affected banking around the world. More seriously, the contagion has moved from Wall Street to the High Street — jobs are being lost in their millions around the world and the retail sector is being beaten to a pulp. US housing starts are significantly down while UK housing starts are down to 1924 levels," she says.

"The UK market has been hit more negatively and subjected to a much slower recovery than the US market, where the agencies — Fannie Mae and Freddie Mac — fund very large portions of the mortgage and development markets."

Proxenos says SA's finance system most closely resembles the UK

debt market. However, IHS operates on an equity-funding basis in partnership with developers rather than on a debt basis, thereby sharing the risk and reducing the developers' exposure. Proxenos says the immediate future of the residential real estate market in SA will depend on the banks continuing to lend for construction and end-user finance.

The short-term downturn offers good opportunities over the longer term, she says. "In the medium term the banks will be back to business as usual." When that happens, investors and developers who have taken advantage of the opportunities in the current dislocated market will reap the benefits.

