

INNER CITY RE-DEVELOPMENT

Afhco's appetite for inner city

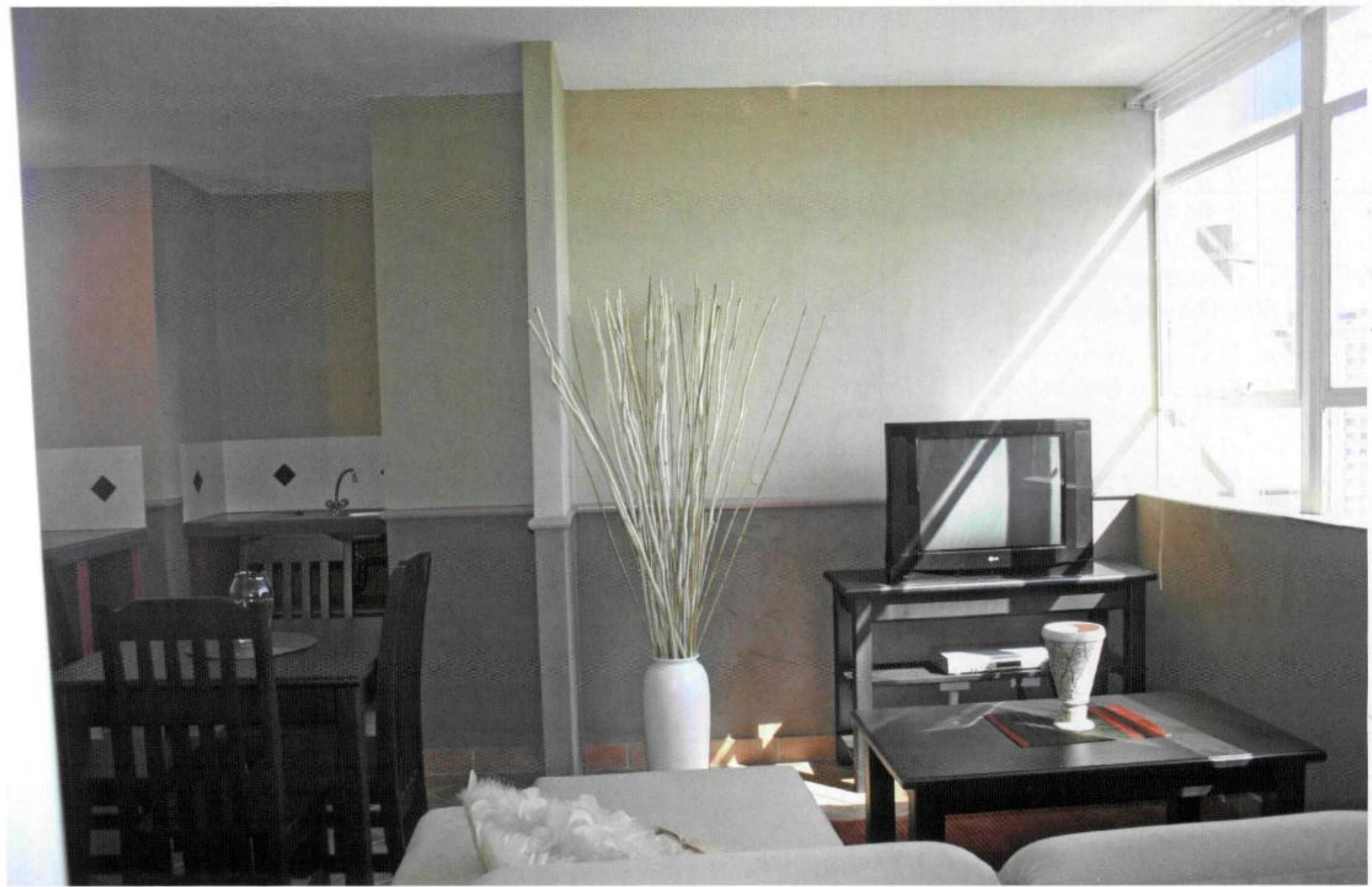
International Housing Solutions hosted an innovative funding and delivery conference during September. Leaders in the banking community, stakeholders in developing the GAP market in housing, attended the think tank to deal with the challenges facing bankers and developers to deliver housing for low and moderate income earners.

The astute and passionate team from Afhco, Renney and Wayne Plit recognised the inner city potential more than a decade ago. Since first entering the affordable housing sector they have built new houses in the township, revamped upgraded and sold off apartments in the 'good old days of end user finance' says Wayne Plit. The brothers learnt lessons in financing this market. We decided we needed to use a different product, instalment sale, essentially financing products we already owned.

Housing is a necessity, but owning a house is an aspiration in South Africa.

The team ran out of product and housing stock and became the first non bank to become a primary lending institution through the NHFC on the Gateway development.

The entrepreneur and accountant started looking at value and made a strategic decision in 1996 to stop selling and hold on to rental stock and work on the city as an environment – that maybe one day – people would buy in at market value. "We are looking at home end user finance with Absa's appetite and 100% loans blow my mind," says Wayne. Renney's business acumen says key is the zero bad debt ratio on the 700 units rolling out a month. "We



brought down the barrier and work on 40% take-home pay as affordability. The instalment sale works for Afhco instead of the traditional mortgage title and the problems to recover the debt are through the sheriff, attachments and auctions. We have become instalment sales specialists in the inner city."

The property owners instalment sale allows Afhco to vote on the body corporate. The Afhco framework uses fixed interest rates, which are not widely used in the lower end of the market because they can't afford the variations, bad debt and lack of recovery. They include retrenchment insurance for six months and death.

From the developers side they can't service below R3500. Their target market is R3500 to R10 000, using a 40% take home pay.

There is a need by government to look at different ways to fund rental stock and revise the current legislation that impacts negatively on landlords.

"We are in the process of educating



and encouraging home ownerships in a sustainable manner. Afhco retains 51% of voting rights of the body corporate for five years and this is fundamental to achieving success," says Renney.

Adding that on Urban Development Incentives, UDZs were restricted to certain areas, but the actual impact has not achieved what it was expected to do. The funding could be used to reduce rentals.

