

Affordability the key to selling houses as recession kicks in

Political stability and transparency a big plus

THE huge demand for housing from low- to moderate-income earners, combined with declining interest rates and relative political and economic stability, continues to drive investment in affordable housing in South Africa.

And the medium-term outlook for property in this country remains positive, despite global economic turmoil and its impact on emerging markets, says Soula Proxenos, managing director of International Housing Solutions (IHS).

The company manages the R1.3 billion South Africa Workforce Housing Fund, one of the largest non-government housing funds in South Africa. It has a number of housing projects under way, and more in the pipeline.

Proxenos, who is based in London but is responsible for IHS's global and South African operations, acknowledges that much of the sheen has come off emerging markets, but argues

that these markets are not necessarily alike and are responding differently to the recession.

"If we look at the BRIC countries – Brazil, Russia, India and China – it is 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 said.

"In South Africa 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, this country is relatively stable politically and has a transparent and good environment for doing business.

"New housing starts in

South Africa are down, which will increase the disparity between the houses available and entrants in the market.

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

"And, finally, prices are softening on land and construction costs, 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: millions of jobs are being lost around the world and the retail sector is being beaten to a pulp. US housing starts are significantly down and UK housing starts are down to down to 1924 levels."

She says the UK market has been affected 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 South Africa'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 residential property in South Africa will depend on the banks continuing to lend for construction, and end user finance. She said the current short-term downturn offers good opportunities.

"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," she said.

