

Bridging the gap

Shot in the arm for cash-strapped developers

BANKS MAY HAVE tightened the lending taps to property developers and homebuyers, but international investors are still betting on South Africa's affordable housing sector as a long-term capital growth play. International Housing Solutions (IHS), a joint venture between United States mortgage lender MuniMae and Irish property group Howard Eurocape, has over the past 18 months built up a R2,4bn war

chest to help finance affordable housing projects in SA.

The R2,4bn private equity fund – SA Workforce Housing Fund – has raised capital from US and Canadian pension fund managers, the US Overseas Private Investment Corporation (OPIC) as well as a few South African investors. Soula Proxenos, the London-based MD of IHS South Africa, says the fact the fund has been so successful in its capital raising efforts amid the global liquidity crunch signals a strong vote of confidence in the growth potential of SA's housing sector.

Says Proxenos: "Investors are taking a longer-term view. They realise there's huge potential to address SA's massive mismatch between housing demand and supply over the next 10 years."

SA Workforce Housing Fund concentrates on funding developments aimed at households earning roughly between

R7 500 and R20 000/month – projects where units would typically cost between R300 000 and R600 000.

That income bracket is often described as the "missing middle" because families within that bracket earn too much to qualify for Government-funded housing but not enough to afford most of the housing stock currently available for sale or rent.

Proxenos says with banks becoming more cautious in providing development finance, it's becoming increasingly difficult for developers with limited cash flow to get involved in large-scale housing projects. Currently, most banks are only prepared to finance up to 70% of total development costs. IHS would help finance a project in the form of a 20% to 25% equity stake. The R2,4bn fund therefore has the capacity to get involved in housing projects with a total development cost of around R10bn.

Proxenos says by taking an equity stake up front developers are required to put in a far small-

er proportion of their own capital to secure a bank loan. The idea is for IHS to partner with developers on both greenfield and redevelopment projects.

Proxenos says developments needn't be located in low-income areas. In other words, the fund is happy to partner with a developer building a sectional-title complex in Johannesburg's northern suburbs or with a developer supplying stand-alone homes in Soweto. "As long as both projects are priced in the R300 000 to R600 000 unit range."

He says the key criteria for IHS is to partner with developers who can offer a quality product at the right price. "Size is also important, so we look for larger projects worth at least R100m."

IHS has already closed deals with two developers, one currently planning a greenfield housing project in Witbank and the other converting the old Greatermans head office in downtown Jo'burg into 400 rental apartments.

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Offshore investors bullish on SA housing.
Soula Proxenos

HOUSES STILL TRADING

WHILE ANECDOTAL EVIDENCE suggests residential property sales and mortgage lending have all but dried up, latest figures from the Deeds Office and the SA Reserve Bank paint a far less sombre picture. The South African Property Transfer Guide (SAPTG), which sources housing data from the Deeds Office, reports the total number of housing sales recorded countrywide dropped by 36% in 2008 year-on-year. That's nowhere near some estimates of sales declining by at least 60% last year.

SAPTG's figures show that around 169 720 sectional and full title residential

properties (priced between R100 000 and R19m) were sold in SA last year with a total value of R137,3bn. That's down from around 266 920 properties sold in 2007, valued at R207,9bn. The national average house price, as recorded by SAPTG, was therefore still up 3,9% last year: from R779 224 in 2007 to R809 380 in 2008.

In addition, the latest lending figures from the SA Reserve Bank show banks still approved new mortgages and re-advances to the value of R270bn in 2008, down 26% on the R365bn granted in 2007.

Although nobody's denying the housing

market is going through a major downturn, those figures clearly refute any talk of a market collapse. As SAPTG data specialist Dieter Deppisch puts it: "What the SA housing market has experienced over the past two years has been part of a normal cyclical economic trend and a necessary, if painful, correction."

Although most industry players don't expect sales activity to return to 2007 levels before 2011, Pam Golding Properties CE Andrew Golding says transaction volumes should increase by around 15% this year on the back of lower interest rates and improved investor sentiment. ▀